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Reducing Barriers to Market Entry and Business Operation

(Program untuk Memperbaiki Iklim Investasi – PROMIS)

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Acronyms and Indonesian Terms

AHP	Analytical Hierarchy Process approach
APINDO	Indonesian Employers' Association (<i>Asosiasi Pengusaha Indonesia</i>)
AusAID	Australian Agency for International Development
BAPPENAS	National Development Planning Agency (<i>Badan Perencanaan Pembangunan Nasional</i>)
BITRA	<i>Bina Keterampilan Pedesaan</i>
BKPM	Investment Coordination Board (<i>Badan Koordinasi Penanaman Modal</i>) at the national level
BNI	<i>Bank Negara Indonesia</i>
BPS	Central Statistics Board (<i>Badan Pusat Statistik</i>)
BRI	<i>Bank Rakyat Indonesia</i>
B-Trust	Bandung Trust Advisory Group
CEMSED	Center for Micro and Small Enterprise Dynamic
COP	Community of Practice
CSIS	Center for Strategic and International Studies
DPM	<i>Daya Prosumen Mandiri</i> Foundation
DPD	Council for Regional Representatives (<i>Dewan Perwakilan Daerah</i>)
DPR	National Parliament (<i>Dewan Perwakilan Rakyat</i>)
DPRD	Local parliament (<i>Dewan Perwakilan Rakyat Daerah</i>)
FGD	Focus group discussion
Forda UKM	Small and Medium Enterprises Association (<i>Forum Daerah Usaha Kecil dan Menengah</i>)
GDP	Gross Domestic Product
GTZ	German International Cooperation Enterprise (<i>Deutsche Gesellschaft für Technische Zusammenarbeit</i>)
HO/SITU	Nuisance Permit (<i>Hinderordonnantie</i> or <i>Undang-undang Gangguan/Surat Izin Tempat Usaha</i>)
IDR	Indonesian Rupiah
IFC	International Finance Corporation
IMB	Construction/Building Permit (<i>Izin Mendirikan Bangunan</i>)
IPPT	Land Use Permit (<i>Ijin Peruntukan Penggunaan Tanah</i>)
IT	Information Technology
JNP-UKM	Network of SME Supporters (<i>Jaringan Nasional Pendukung Usaha Kecil dan Menengah</i>)
KADIN	Indonesia Chamber of Commerce (<i>Kantor Dagang Indonesia</i>)
KPK	Eradication of Corruption (<i>Komisi Pemberantasan Korupsi</i>)
KPPOD	Regional Autonomy Watch (<i>Komite Pemantau Pelaksanaan Otonomi Daerah</i>)
LG	Local Government
LOGICA	Local Governance and Infrastructure for Communities in Aceh
LOH	<i>Lembaga Olah Hidup</i>
LPEM-FEUI	University of Indonesia's Institute for Economic and Social Research (<i>Lembaga Penyelidikan Ekonomi & Masyarakat – Fakultas Ekonomi Universitas Indonesia</i>)
M&E	Monitoring and Evaluation

MOA	Ministry of Agriculture
MOHA	Ministry of Home Affairs (<i>Departemen Dalam Negeri</i>)
MOT	Ministry of Trade (<i>Departemen Perdagangan</i>)
MOU	Memorandum of Understanding
NAD	Nanggroe Aceh Darussalam
NGO	Non-government Organization
NPPO	National Procurement Policy Office (<i>Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah</i>)
NPWP	Tax Number (<i>Nomor Pokok Wajib Pajak</i>)
NTB	West Nusa Tenggara (<i>Nusa Tenggara Barat</i>)
NTT	East Nusa Tenggara (<i>Nusa Tenggara Timur</i>)
OPI	One Stop Shop (OSS) Performance Index
OSS	One Stop Shops
PATTIRO	<i>Pusat Tela'ah dan Informasi Regional</i>
PEPR	Partnership for Enterprise Policy Reform (former USAID program)
<i>Perda</i>	Local Regulation (<i>Peraturan Daerah</i>)
PKPEK	<i>Perkumpulan untuk Kajian dan Pengembangan Ekonomi Kerakyatan</i>
PKSBE	<i>Pusat Kajian Sosial, Budaya, dan Ekonomi</i>
POPI	Provincial OSS Performance Index
PRISM	Policy Reform for Increased SME Growth (former USAID program)
PROMIS	Reducing Barriers to Market Entry and Business Operation (<i>Program untuk Memperbaiki Iklim Investasi</i>)
PRT	Provincial Round Table
PUPUK	<i>Perkumpulan untuk Penguatan Usaha Kecil</i>
REI	Real Estate Indonesia
RPJM	Medium-term development plan (<i>Rencana Pembangunan Jangka Menengah</i>)
RIA	Regulatory Impact Assessment
RIAS	Regulatory Impact Assessment (RIA) Statement
SIUJK	Construction Service Permits (<i>Surat Izin Usaha Jasa Konstruksi</i>)
SIUP	Trading Permit (<i>Surat Izin Usaha Perdagangan</i>)
SME	Small and Medium Enterprise
SMS	Short Messaging Service
SNI	Indonesian National Standard (<i>Standar Nasional Indonesia</i>)
SOP	Standard Operating Procedure
SK	Letter of Decree (<i>Surat Keputusan</i>)
STABIL	<i>Sentra Program Pemberdayaan dan Kemitraan Lingkungan</i>
TA	Technical Assistance
TDG	Warehouse Permit (<i>Tanda Daftar Gudang</i>)
TDI	Industrial Registration License (<i>Tanda Daftar Industri</i>)
TDP/WDP	Company Registration License (<i>Tanda Daftar Perusahaan/Wajib Daftar Perusahaan</i>)
TOT	Training of trainers
UKSW	<i>Universitas Kristen Satya Wacana</i>
UNIMAL	<i>Universitas Malikussaleh</i>
UNSYAH	<i>Universitas Syah Kuala</i>
USAID	United States Agency for International Development

Executive Summary

This is the Final Report for the Reducing Barriers to Market Entry and Business Operation program, referred to as PROMIS (*Program untuk Memperbaiki Iklim Investasi*). The period covered by this report is from April 27, 2005 through October 26, 2008.

PROMIS aimed to improve the business climate in Indonesia by meeting the following objectives: (i) reducing the cost and complexity of business licensing and permitting, resulting in higher numbers of business entering the formal sector and faster licensing for investors; (ii) improving the formulation of business regulations so that local governments issue fewer distortive regulations; and (iii) creating strong incentives for local governments to implement business-friendly policies, resulting in higher numbers of local governments implementing market reforms and adopting best practices.

This program had three key program components: (i) streamlining business licensing and registration; (ii) institutionalizing Regulatory Impact Assessment (RIA) in local policymaking; and (iii) rating of local business environment attractiveness.

As part of component one, the Foundation supported local governments in 32 districts in 9 provinces, providing technical assistance to streamline business licensing and registration. In partnership with 14 local NGOs, the program successfully upgraded or established 29 One Stop Shops (OSS) that consolidated the authority to issue licenses from several local government units into one licensing center. All OSS have clear and transparent guidelines on cost and processing times and complaint handling mechanisms. Most of the OSS adopted parallelization of issuance for all major licenses needed to establish a new business. This resulted in a significant reduction in the time and number of requirements needed to obtain these key licenses. The costs of obtaining three of the five major licenses were reduced and, more importantly, transparency reduced the practice of bribery. The volume of licenses issued increased significantly. These improvements were further supported by the introduction of information technology (IT) systems in 9 locations. IT systems have enabled customers to submit license applications online, file complaints, and track their application status through short messaging service (SMS).

At the national level, the program successfully advocated for the issuance of a Ministerial Decree and Guidelines by the Ministry of Home Affairs on OSS establishment. In addition, a draft decree on nuisance permits was drafted and submitted for the Minister's approval with the support of advocacy by the Foundation. At the provincial level, 2 provincial-level OSS and 3 OSS Support Centers were established. The OSS Support Centers adopted and modified the OSS Performance Index developed by the Foundation to monitor the performance of the district-level OSS in their provinces.

A series of provincial roundtables were held in 8 provinces, two of which led to the establishment OSS at provincial-level and support centers discussed above. In addition, PROMIS built the capacity of 14 local NGOs in 9 provinces that were able to continue providing OSS technical assistance after the program ended. Some of these NGOs have started providing support to local governments outside of PROMIS sites, funded by the budget of local governments receiving assistance. Furthermore, the program has inspired 1 provincial government and 2 municipal governments to adopt OSS principles for public procurement.

Under component two, the Foundation worked with 20 local governments (LGs) in 5 provinces to introduce Regulatory Impact Assessments (RIA) in local policymaking, covering 12 districts that also received technical support for OSS. Each partner LG established a team that was responsible for implementing RIA. A total of 41 regulations were reviewed by the RIA teams, who formulated the results in RIA Statements, which are meant to inform policy reform. RIA teams in 19 districts used the RIA results to draft 37 revised local regulations (*perda*) and one draft Regent Decree. To date, 19 revised laws have been submitted to local parliaments (DPRD), and 7 revised *perda* have been passed in 5 districts. DPRD in 4 additional districts are scheduled to review and deliberate an additional 7 revised *perda* in 2009.

Local governments began institutionalizing the RIA process into local policy. Four LGs have continued to utilize RIA teams to review additional regulations. One LG has also issued a Regent Decree requiring utilization of RIA in the local policymaking process. At the national level, RIA was used by Ministry of Trade to analyze regulations related to two important commodities: cocoa and rattan. Recommended revisions identified through RIA assessment are currently being adopted into regulations that will be issued by the Ministries of Agriculture and Trade.

Through component three of PROMIS, the Foundation supported two surveys of local business environment attractiveness in Indonesia. Two Local Economic Governance surveys were conducted by the Foundation's local partner, KPPOD (Regional Autonomy Watch). The first survey took place in 2005 and covered 228 districts in 30 provinces, while the second survey, with an improved methodology, was conducted in 2007 and covered all 243 districts in 15 provinces. The results of these surveys were used to rank districts according to their attractiveness for investment, helping to encourage competition between districts in implementing business-friendly economic policies. The results of both surveys, particularly the second, were widely covered by the media in Indonesia.

By working at the national, provincial, and local levels to improve licensing policy and regulatory drafting, PROMIS has helped to create a more dynamic business environments for companies across Indonesia. Through PROMIS, the Foundation has targeted the most critical government inefficiencies facing business owners in Indonesia and contributing to the economic growth needed to drive higher rates of job creation. The Foundation identified the following important lessons learned from the PROMIS program:

- ***Decentralization has created opportunities for reform, but there remain national government policies (or lack of them) that limit reform.*** Several district governments were hesitant to fully adopt RIA due to the lack of national-level regulations. The newly-issued Government Regulation 41/2007 on the organizational structure of local government also caused some districts to delay the establishment of an OSS. Several business constraints identified in the survey, such as access to land and to infrastructure (particularly electricity) are within the authority of the national government.
- ***The local government's commitment was a key factor for the success of OSS and RIA implementation.*** Support from the Regent or Mayor was key, with local legislators also playing an important role in promoting (or blocking) local governance reform. When business licensing and policies are reformed, some local government units lose their authority as well as opportunities to obtain additional income for their personnel. Several local governments – both executive and legislative branches – did not see the tangible outputs or long-term benefits of regulatory reform, and considered RIA as reducing the already-limited opportunity for collecting local revenues.

- ***OSS has become a symbol of local governance reform.*** The concrete results of OSS – physically tangible, increased local revenue due to an increased volume of business licenses, and reduced corruption due to transparency of the procedures – coupled with the availability of national-level OSS guidelines, have made OSS a symbol of reform. Public demand on local government to establish OSS or adopt similar principles is growing. OSS also serves as a model for other types of reform, such as procurement reform.
- ***Nation-wide replication of OSS will require expanded technical support.*** In addition to local NGO partners who might provide support, provincial government can also play an important role in helping districts to establish or upgrade the performance of OSS. The OSS Performance Index developed by the Foundation has been successfully used as a monitoring tool by provincial governments.
- ***The technical capacity of partners, and their ability to collaborate, was crucial to success.*** At the time PROMIS started, most local NGO partners did not have experience in implementing OSS or RIA, but they did have strong facilitation and advocacy skills. The Foundation successfully transferred its own knowledge about facilitating OSS and RIA to partners through trainings, workshops and intensive monitoring and backstopping. Knowledge-sharing between partners also proved effective in accelerating the learning process. To address NGOs lack of technical knowledge about how to conduct a cost-benefit analysis – a key part of RIA – the Foundation engaged local academicians and consultants to backstop NGO partners. In implementing the 2007 survey, the Foundation complemented NGO with high understanding of concept and advocacy with a research survey firm that that is strong in managing data collection.
- ***Larger coverage comes at the expense of deepening reforms and achieving more.*** The OSS and RIA components of the program were implemented in stages, each which lasted a year. This approach effectively introduced new tools, achieved targeted program outputs, and covered a relatively large number of districts. However, sustained reform, with higher outcomes and impacts, will require more than a year of technical assistance, particularly for RIA.
- ***The geographic clustering of OSS and RIA components can help to accelerate reforms.*** The reform process was accelerated in districts where both RIA and OSS components were implemented. Most of the regulations reviewed under RIA were related to licensing and permitting, indicating the importance of this aspect in improving local business climate. Licensing constraints should be addressed at both the regulatory and procedural levels, using RIA and OSS components.
- ***The economic governance survey could be more fully utilized as an advocacy tool for promoting further reforms.*** The Local Economic governance survey has the largest coverage among surveys of its kind in Indonesia, and results can be used by local governments to prioritize initiatives to promote local economic growth. However, the survey's dissemination strategy failed to comprehensively engage local governments, making for little awareness and follow-up. Provincial governments could also have been engaged further, as the 2007 survey covered all districts within several provinces.
- ***The methodology of the economic governance survey can be improved further.*** The methodology of the survey was improved between 2005 and 2007. However, the survey could be further improved by reducing the influence of endowment factors further, and reducing the number of variables which are not within the authority of local governments.

I. Background

Indonesia is now at a critical and exciting stage in its economic development process. Under the strong leadership of President Yudhoyono, the government has introduced a number of important initiatives to respond to longer-term development challenges and to improve the business environment. Indonesia has experienced fairly stable macroeconomic conditions, and exports and private consumption have also been strong. Indonesia's central bank moderated its gross domestic product (GDP) growth rate to 6.1% due to the weakened global economy, but Indonesia's exports and private consumption have increased. According to *Doing Business 2009* (The World Bank and International Finance Corporation/IFC), business perceptions of Indonesia's investment climate are improving due to many important reforms having been pushed through in the last three years. Recent policy changes include a new presidential instruction on economic programs focuses and a new tax administration law. Another key reform has been a Ministry of Home Affairs decree, which the Asia Foundation helped to facilitate, mandating One Stop Shops for business licensing in all districts in Indonesia.

However, Indonesia still lags behind most of Asia in investment, while poverty and unemployment remains a persistent problem.¹ The rapid decentralization of political power to the regions has created new challenges for driving business growth, in many cases leading to economic policy uncertainty and a profusion of new regulations. While central government remains a key part of the overall story, local governments also have a major role in establishing the regulatory environment and allocating public spending (36 percent of all development spending takes place at the sub-national level).² A few local governments have leveraged this new freedom to create dynamic business climates, but many have struggled with financial mismanagement, legal uncertainty and poor strategic planning. Capacity for government functions such as planning, financial management, business promotion and regulation remains weak in most of Indonesia. Compared to its neighbors, Indonesia remains one of the most difficult countries to start a business in the region, requiring 76 days and 11 procedures.³

The Asia Foundation implements a range of economic reform and development programs, with an overarching goal to reduce poverty by spurring economic growth and job creation. Much of the Foundation's work has been focused on the primary engine of job creation in Indonesia, small and medium enterprises (SMEs). The Foundation has a strong history of conducting studies and operational research that have informed economic policies at both the national and district level. Gender mainstreaming is also a strong cross-cutting theme of the Foundation's work in Indonesia.

In this context, the Foundation designed the Reducing Barriers to Market Entry and Business Operation Program (*Program untuk Memperbaiki Iklim Investasi* or PROMIS), and secured funding from the United States Agency for International Development (USAID). The program contributed to USAID's strategic objective of "*effective systems of economic governance increase trade and investment and drive new job creation.*" In particular, activities contributed towards USAID's intermediate results of "*increased certainty in the business operating*

¹ Based on the *Doing Business 2009*, Indonesia's overall "ease of doing business" rank has slipped slightly from 127 last year to 129 this year.

² *Spending for Development: Making the Most of Indonesia's New Opportunities*, The World Bank, 2007.

³ Based on the *Doing Business 2009*, Indonesia ranks 171 out of 181 in the world for "starting a business."

environment lowers trade and investment risk;” and “improvements in critical public services increase investment and trade efficiency.” Program efforts also contributed towards USAID’s activity results of *“Business registry systems are more efficient acceptable, and transparent;”* and *“Cost/benefit analysis routinely undertaken during development of policy and legislation.”*

Broadly, PROMIS was designed to build capacity across a range of functional areas at the local government level in order to create more dynamic local business environments. Instead of focusing directly on business development services or access to credit, PROMIS targeted the policy and regulatory barriers that consistently impede economic growth in Indonesia. These impediments to growth include barriers to entry due to licensing and registration requirements, poor business regulations at the local and national level. PROMIS aimed to remove these barriers to economic growth by combining technical assistance to local governments with policy advocacy at the local and national levels.

II. Program Implementation Framework

A. Overall Objectives

The program aimed to improve the business climate in Indonesia by meeting the following objectives:

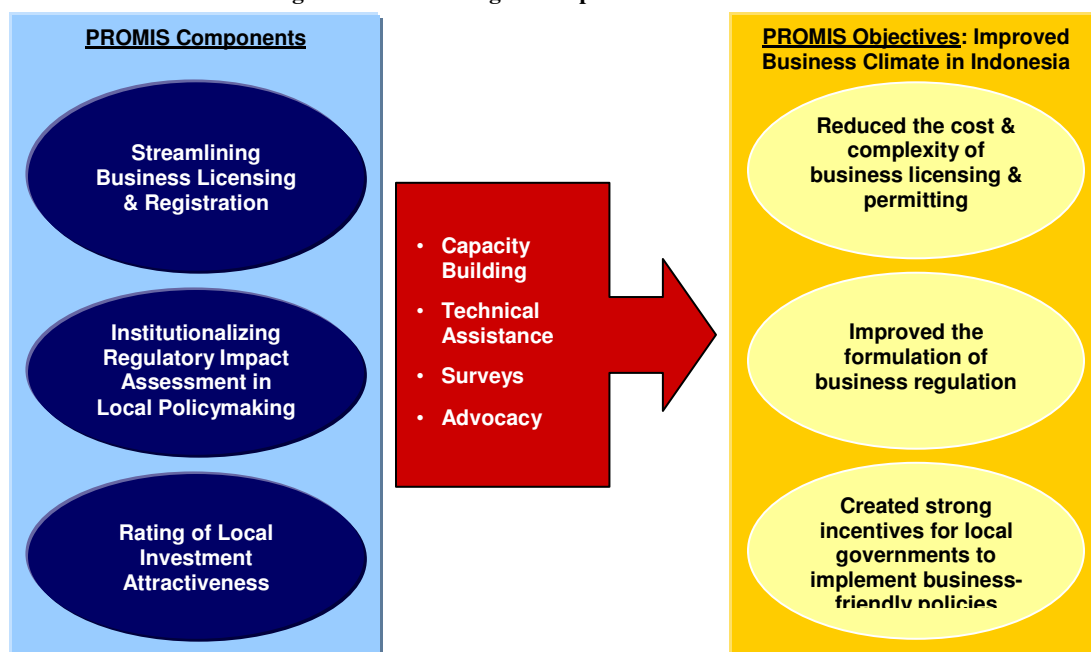
- (i) Reducing the cost and complexity of business licensing and permitting, resulting in higher numbers of businesses entering the formal sector and faster licensing for investors;
- (ii) Improving the formulation of business regulations so that local governments issue fewer distortive regulations; and
- (iii) Creating strong incentives for local governments to implement business-friendly policies, resulting in higher numbers of local governments implementing market reforms and adopting best practices.

B. Program Components

This program involved three key components:

- (i) Streamlining business licensing and registration;
- (ii) Institutionalizing Regulatory Impact Assessment (RIA) in local policymaking; and
- (iii) Rating of local business environment attractiveness.

Figure 1. Overall Program Implementation Framework



C. Timeframe and Geographic Coverage

The program's initial implementation period covered April 27, 2005 to April 26, 2008. However, the duration of the program was extended to October 26, 2008 to allow the Foundation to further build on its achievements.

The first two components of PROMIS were implemented in nine provinces in Indonesia (Aceh, North Sumatra, West Sumatra, East Java, Central Java, West Java, DI Yogyakarta, West Nusa Tenggara, and South Kalimantan), covering 40 districts/municipalities (see **Annex 1**). The third component of *Rating of Local Business Environment Attractiveness* covered 228 and 243 district/municipalities in 2005 and 2007, respectively. In addition to district-level interventions, the program also operated at the provincial level in three provinces (Central Java, West Java, and Aceh) and provided assistance at the national level to the Ministry of Home Affairs (MOHA) and Ministry of Trade (MOT).

PROMIS interventions were tailored to the specific needs and concerns of stakeholders in each district. Business licensing and registration assistance through One Stop Shops (OSS) covered 32 districts, while the program provided support to institutionalize the Regulatory Impact Assessment (RIA) in local policymaking in 20 districts. Twelve districts benefitted from a combination of both OSS and RIA technical assistance. All 40 districts participated in OSS and/or RIA components were also surveyed as part of the *Rating of Local Business Environment Attractiveness*.

D. The Asia Foundation Approach

The Foundation's approach combines technical assistance for government with support for advocacy by the private sector. The Foundation works with business associations to increase the demand for reforms by providing research support and funding, as well as designing media and advocacy campaigns. The Foundation also works with Indonesian officials on the supply side of the reform process to increase the capacity of government to respond positively to new demands for reform.

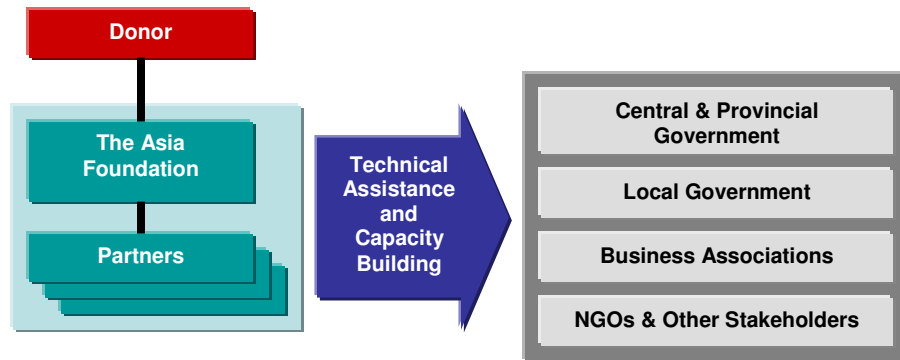
The Foundation prioritizes securing support from local government leadership. Before agreeing to any technical assistance (TA) program, a comprehensive assessment is completed that gauges the commitment of the government—not just expressions of interest, but evidence of other reform initiatives, and agreement to contribute significant matching funds and staff to realize the program goals.

The Foundation targets all levels of government – local, provincial and national. Experience has shown that solving some of the problems faced by district-level government requires the involvement of the provincial or national government. By working with all levels of government, the Foundation promotes appropriate coordination towards clearly-defined economic reform objectives.

The Foundation works through local partners to ensure that programs are sustainable. The use of local partners is part of The Asia Foundation's strategy to strengthen local resources centers, which can provide technical assistance to government in a sustainable way. These local partners are trained and monitored intensively throughout the technical assistance. The Foundation's staff engages closely with partners in designing programs, interacting with government and monitoring

outcomes. This partnership is the key for successful program implementation, as it brings in local knowledge, frequent field monitoring and outside technical expertise.

Figure 2. Institutional Arrangement for Implementing PROMIS



III. Overall Achievements

In general the program has achieved the objectives of improving business climate in Indonesia through: (i) reducing the cost and complexity of business licensing and permits, resulting in higher numbers of businesses entering the formal sector and faster licensing for investors; (ii) improving the formulation of business regulations so that local governments issue fewer distortive regulations; and (iii) creating strong incentives for local governments to implement business-friendly policies, resulting in higher numbers of local governments implementing market reforms and adopting best practices.

Based on the results framework of each of the program's component, PROMIS achieved the following results and achievements:

1. *Streamlining Business Licensing and Registration*

The Foundation and its local partners provided technical assistance (TA) to 32 local governments (LGs) in 9 provinces to streamline business licensing and registration. Among these LGs, 29 were able to establish or upgrade One Stop Shops (OSS). OSS consolidated the authority to issue licenses from several LG departments/agencies/offices into one licensing center. All OSS established clear and transparent guidelines on cost and processing time and complaint handling mechanisms. Most of the OSS adopted parallelization of issuance for all major licenses needed to establish a new business. This resulted in a significant reduction in the time and number of requirements needed to obtain these key licenses. The costs of obtaining three of the five major licenses were reduced and, more importantly, transparency reduced the practice of bribery. The volume of licenses issued increased significantly in all sites. These improvements were supported further by TA on information technology (IT) in 9 locations, allowing customers to submit license applications online, file complaints, and track their application status through short messaging service (SMS).

At the national level, the Foundation supported the issuance of the Ministry of Home Affairs Decree and Guidelines on OSS establishment. In addition, a draft Ministry of Home Affairs Decree on nuisance permits was submitted for the Minister's approval based on the results of the Foundation's advocacy work. At the provincial level, two provincial-level OSS and three OSS support centers were established. The OSS support centers adopted and modified the OSS Performance Index developed by the Foundation to monitor the performance of the district-level OSS in their provinces.

A *Community of Practice* was established through provincial roundtables in 8 provinces, two of which led to the establishment of provincial OSS and support centers. In addition, PROMIS provided capacity-building for 14 local NGOs in 9 provinces, so that these NGOs were able to continue providing OSS technical assistance after the program closed. Some of the Foundation's NGO partners have begun providing support to local governments outside PROMIS sites, funded by the government's own budgets. Furthermore, the program has inspired one provincial government and two municipal governments to adopt OSS principles in public procurement.

2. *Institutionalizing Regulatory Impact Assessment (RIA) in Local Policymaking*

Regulatory Impact Assessment (RIA) is a policy analysis tool that is carried out routinely in many countries to ensure that the costs and benefits of regulations are clear to decision-

makers and to ensure that business communities and other relevant stakeholders are consulted. The Foundation and its partners provided TA to 20 districts in 5 provinces in order to institutionalize RIA in local policymaking. This included 12 districts that also received technical assistance on OSS. Each LG established a RIA team that was responsible for implementing the assessment. RIA teams reviewed a total of 41 regulations and produced 41 RIA Statements.⁴ RIA teams in 19 districts prepared one draft Regent decree and 37 draft revised local regulations (*perda*),⁵ 19 of which were submitted to local parliaments (DPRDs). Seven revised *perda* were passed by five DPRDs, included five *perda* in three OSS-supported districts. Local parliaments in four other districts planned to approve seven other local regulations in 2009.

Local governments have begun institutionalizing the RIA process into local policy making. Four local governments have continued to utilize RIA teams to review other regulations. One local government has also issued a Regent Decree requiring the use of RIA in the local policymaking process.

At the national level, the Ministry of Trade employed the RIA method to analyze regulations related to two important commodities: cocoa and rattan. Revisions resulting from these RIA processes are currently being adopted into regulations by the Ministries of Agriculture and Trade.

3. *Rating of Local Business Environment Attractiveness*

The Foundation and its partner, KPPOD (Regional Autonomy Watch), completed two surveys of investment competitiveness funded by PROMIS. The first survey took place in 2005 and covered a sample of 228 districts in 30 provinces. The report launch was the subject of seven news articles in national newspapers. Cabinet officials asked their staff to draw on the study for policy inputs and have repeatedly referred to it positively in media reports. The government has used KPPOD survey results to list weak local regulations that should be rescinded. The second survey was conducted in 2007-2008 and covered all 243 districts in 15 provinces. The *2007 Local Economic Governance Survey* report was launched in July 2008 and received wider media coverage than the 2005 report. In the last week of July 2008 alone, the survey was the subject of 42 articles in print and online.

⁴ Including 23 local regulations related to business licensing and registration in 12 OSS-supported sites.

⁵ A *perda* is the highest level of legal policy that can be produced by a local government. Draft *perda* must be voted on and approved by the parliament (DPRD) and signed into law by the executive branch. The Regent (head of district, or *bupati*) or mayor (head municipality or *walikota*) can issue a decree/regulation/instruction that can be applied only to the executive branch of the government, referred to as a *surat keputusan* or SK. As a district-wide law, a *perda* is more authoritative, but usually it takes longer to prepare and to pass than a decree.

IV. Streamlining Business Licensing and Registration

A. Background of the Component

Indonesia has one of the most cumbersome, time-consuming, and corrupt licensing processes in Asia. Red tape is so pervasive that most of the domestic private sector remains informal and unregistered. The Foundation has eased the bureaucratic burden on small businesses by supporting local government efforts to streamline the processing of business licensing by setting up One Stop Shops (OSS). OSS are new government institutions that consolidate authority for business licensing from disparate technical departments into one office where all business permits and licenses can be obtained quickly. Simplified and transparent licensing procedures encourage small and medium enterprises (SMEs) to formalize, which in turn allows them to apply for bank loans, employ more staff, supply larger retailers and export goods.

One Stop Shops were first mandated in all districts by a circular letter issued by the Ministry of Home Affairs (MOHA Circulation Letter No. 84/1998). The Asia Foundation was among the first organizations to provide technical assistance for OSS to local governments, beginning in 1999 with the *Policy Reform for Increased SME Growth* (PRISM) program, followed by the *Partnership for Enterprise Policy Reform* (PEPR) program, both funded by the United States Agency for International Development (USAID). Based on knowledge and experience accumulated over the last ten years, the Foundation has continuously redeveloped and refined its approach and methodology for technical assistance for One Stop Shops.

Prior to the implementation of PROMIS, approximately 20% of local governments nation-wide had established OSS as a result of the Circular Letter issued by MOHA, but many OSS did not function as intended. Most of the OSS established prior to PROMIS adopted a “one roof policy,” which established one point of contact between the business owner and the government, but did not consolidate the authority to issue licenses. Therefore, authority for various aspects related to business licensing remained under the authority of several LG units/departments. PROMIS aimed to establish OSS – or upgrade OSS in districts where they already existed – that streamlined licensing procedures by consolidating all licensing authority within the OSS, known as the “one door policy.” The Foundation’s OSS program also aimed to improve transparency and to introduce complaint handling mechanisms. Also to enhance the services provided by OSS, e-government applications were introduced. The OSS component of the program also introduced regulatory reforms at the local, provincial and national levels, to accelerate the implementation of local-level business licensing reforms.

B. Component Results Framework

The main objective of the *Streamlining Business Licensing and Registration* component was to reduce the complexity of the business licensing and registration process. This component included four activities: (i) establishing or strengthening of OSS for licensing; (ii) establishing a community of practice to streamline business licensing; (iii) rationalization of licensing requirements at the provincial and central government level; and (iv) e-government applications for business licensing. The results framework of this component is indicated in **Table 1**.

Table 1. Output and Outcome Indicators of Streamlining Business Licensing and Registration Component

Output Indicators	Outcome Indicators
Activity 1. Establish or Strengthen One Stop Shop for Licensing	
1.1. At least 30 local governments demonstrate improved licensing procedures with clear guidelines on cost and processing time, complaint mechanisms, and increased the authority to meet these requirements.	Improvements to issuing times, processing fees, customer satisfaction surveys, and an increase of licenses being issued.
1.2. At least 9 local governments have demonstrated capacity to undertake RIA to identify licenses that are unnecessary, redundant or not applicable to all businesses.	Number of requirements prevented or removed and/or exemptions created.
Activity 2. Establish a Community of Practice to Streamline Business Licensing	
2.1. Four provinces host regular roundtables on the business environment to build a community of practice that will develop and advocate for improvements to business licensing	Number of local governments initiating improvements following their involvement in the roundtables and in the level of cost share of the roundtable.
2.2. Six provinces have NGOs capable of providing TA to One Stop Shops	Survey of local governments to assess satisfaction with the NGO partners, and the level of cost share provided by LG towards the expense of TA.
Activity 3. Rationalization of Licensing Requirements at the Provincial and Central Government Level	
3.1. At least 3 provincial investment boards strengthened to provide improved or more numerous investor services, including better information and/or outreach.	Number of services being offered and number of investors using the facilities.
3.2. Regulatory structure and process at different levels of government reconsidered by policymakers and revised to eliminate redundancy.	Quality and number of changes to relevant regulations.
Activity 4. E-Government Applications for Business Licensing	
4.1. Licensing applications available online. Linkages established between the provincial investment board websites and local government websites in the provinces so that applications are easily available to investors.	Number of websites and number of hits to these pages.
4.2. Automated complaint centers installed in 9 local governments' OSS.	Number of complaints handled and customer satisfaction surveys completed.

C. Technical Assistance Approach

As indicated in **Figure 3**, the TA provided by the Foundation as related to OSS included five key steps, with media advocacy employed at each step. First, the Foundation and its partner supported an *assessment* of the political and economic context, and the commitment of the local government. Next, assistance for the *design of licensing reforms* was provided. This step included a mapping of current business licensing practices and the formulation of strategic recommendations. The third step was *building political commitment* through the formulation of

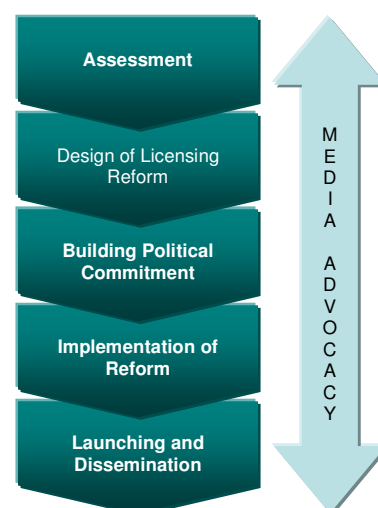


Figure 3. OSS TA Process

legal basis for improved licensing practices (either a local regulation or a regent or mayoral decree). This was followed by the most important step, *implementation of reform*. At this stage, OSS personnel were trained and the service provision infrastructure was put in place. Finally, the Foundation supported *launching and dissemination* activities to promote OSS services through events, leaflets, billboards and other channels.

D. Partners Engaged

Technical assistance was implemented in close collaboration with local non-government organization (NGO) partners. The Foundation undertook a rigorous process to select and train local NGO partners to implement TA for OSS. Intensive monitoring and technical support was provided by the Foundation, particularly during the stages when reforms were directly implemented.

The Foundation engaged with 14 local NGO partners to deliver the TA for this component (see Table 2).

Table 2. PROMIS OSS Partners and Coverage of Technical Assistance

No	Partners	Location ⁶	Province	Start Date	End Date
1	<i>Perkumpulan Untuk Penguatan Usaha Kecil (PUPUK)</i> Surabaya, that established a unit to support establishment and improvement of OSS called "OSS Center"	Kota Probolinggo Pasuruan Kota Blitar Sidoarjo Lamongan Jombang	East Java	May 2005 May 2006 Jan 2007	Feb 2007 Nov 2007 Nov 2007
2	<i>Pusat Tela'ah Dan Informasi Regional (PATTIRO)</i> Malang	Blitar	East Java	May 2007	May 2008
3	<i>Daya Prosumen Mandiri (DPM)</i>	Sleman Bantul Kota Yogyakarta Kulonprogo Gunungkidul Demak	Central Java and Yogyakarta	Aug 2005 May 2006	Nov 2006 Jun 2007
4	Center for Micro and Small Enterprise Dynamic (CEMSED)/UKSW	Semarang Kota Salatiga Province of Central Java	Central Java	Jul 2007	Feb 2008
5	PATTIRO Pekalongan	Kota Pekalongan	Central Java	May 2007	Jun 2008
6	Bandung Trust Advisory Group (B-Trust)	Indramayu Kota Cimahi Majalengka Purwakarta Subang Province of West Java	West Java	Aug 2006 May 2007	May 2007 Nov 2007
7	Akademika	Bekasi	West Java	Aug 2007	Feb 2008

⁶ There are two types of local government in Indonesia, *kabupaten* (district/regency), which are mainly rural areas, and *kota* (municipality), which are urbanized areas. The table (and other tables in this report) uses "Kota" in front of the name of municipal governments, but for practical reasons does not use "Kabupaten" in front of district names.

No	Partners	Location ⁶	Province	Start Date	End Date
8	<i>Pusat Kajian Sosial, Budaya, dan Ekonomi (PKSBE), Universitas Negeri Padang</i>	Kota Solok Solok Kota Bukittinggi Limapuluh Koto	West Sumatra	Mar 2006 Aug 2007 Apr 2007	May 2007 Feb 2008 Feb 2008
9	<i>Yayasan Bina Keterampilan Pedesaan (BITRA) Indonesia</i>	Deli Serdang Serdang Bedagai	North Sumatra	Aug 2005 Aug 2005	Apr 2006 Jan 2008
10	<i>Forum Daerah Usaha Kecil dan Menengah (Forda UKM) – North Sumatra⁷</i>	Deli Serdang Serdang Bedagai	North Sumatra	Aug 2005 Aug 2005	Apr 2006 Sep 2006
11	Universitas Malikussaleh	Aceh Utara	Aceh	Aug 2005	Sep 2008
12	Universitas Syah Kuala	Kota Banda Aceh Province of Nanggroe Aceh Darussalam	Nanggroe Aceh Darussalam	Sept. 2006 Jun. 2007	Aug. 2008 Feb. 2008
13	<i>Lembaga Olah Hidup (LOH)</i>	Sumbawa Besar	West Nusa Tenggara	Sept. 2006	Dec. 2007
14	<i>Perkumpulan Sentra Program Pemberdayaan dan Kemitraan Lingkungan (STABIL)</i>	Kota Banjarmasin	South Kalimantan	Feb. 2006	May 2007

In addition to the NGO and university partners listed above, *Bisnis Indonesia* daily was also employed as a consultant for Activity 2 of Component 1 (Establishing a Community of Practice to Streamline Business Licensing).

E. Results of the Component

Activity 1: Establish or Strengthen One-Stop Licensing Centers

Summary of Achievements of Deliverable 1.1

Table 3. Summary of Achievements of Deliverable 1,1 of Activity 1 of the Streamlining Business Licensing and Registration Component

Targets	Achievements
<i>Outputs:</i> At least 30 local governments (LGs) demonstrate improved licensing procedures with clear guidelines on cost and processing time, complaint mechanisms, and increased authority to meet these requirements.	<ul style="list-style-type: none"> • 32 LGs received TA. • 29 LGs established upgraded OSS (19 upgraded existing OSS, 10 established new OSS). • All 29 OSS adopted Standard Operating Procedures (SOPs) and provided clear information about cost and processing time. • 28 OSS have full authority to issue licenses.

⁷ BITRA and Forda UKM of North Sumatra worked together to provide TA in Deli Serdang and Serdang Bedagai, North Sumatra.

Targets	Achievements
<i>Outcomes:</i> Improvements to issuing times, processing fees, customer satisfaction surveys, and an increase in licenses being issued.	<ul style="list-style-type: none"> • Time needed to issue 5 major licenses was reduced, on average, from 68 to 23 days due to “parallelization.” • Average processing costs of 3 major licenses decreased, although costs of 2 other licenses increased. • Customer satisfaction surveys were conducted in 8 sites, all showed high customer satisfaction. • Volume of licenses issued increased in 5 sites surveyed.

Outputs of Deliverable 1.1

The Foundation provided TA to 32 local governments in 9 provinces. Twenty-nine LGs successfully established or upgraded One Stop Shops. Ten districts established new OSS and 19 upgraded the existing OSS. The ten districts which established new OSS were: Kota Banda Aceh, Serdang Bedagai, Bekasi, Majalengka, Purwakarta, Subang, Kota Cimahi, Indramayu, Blitar, and Sumbawa Besar. Three districts (Deli Serdang, Lumajang and Aceh Utara) failed to establish an OSS. As indicated in **Annex 2, PROMIS OSS Site Profile**, the results in each site varied but can be overall results can be categorized as follows:

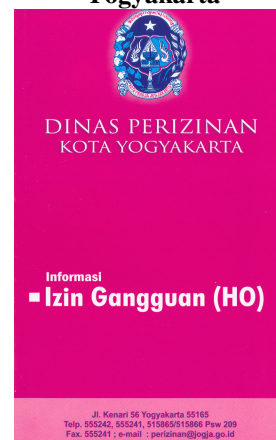
- (a) Organizational status: One Stop Shops in each district took one of four forms. These are listed below in the order of highest status to lowest status:⁸
 - *Dinas* or “technical department” status was adopted by 6 OSS;
 - *Badan* or “agency/board” status was adopted by 7 OSS;
 - *Kantor* or “office” status was adopted by 15 OSS; and
 - *Unit* status was adopted by 1 OSS.
- (b) Legal basis: 26 OSS were established through local regulations (*peraturan daerah* or *perda*), which were approved by local parliament (DPRD). When this occurs, the OSS’ high legal status increases the possibility of sustainability beyond the terms of the local mayors/head of districts. The governments of Kota Solok, Sumbawa Besar, and Sleman were not able to pass a local regulation and therefore established the OSS through Mayoral or Regent Decrees.
- (c) Coverage of types of licenses: The Foundation and its partners required that minimally five major licenses to be issued by each OSS: construction permits (IMB), nuisance permits (HO/SITU), trading permits (SIUP), industrial permits (TDI), and business registrations (TDP). However, all local governments authorized their OSS to issue more than five licenses. For example, the OSS in Lima Puluh Koto, Kota Solok, Bekasi, Kota Cimahi, Kota Yogyakarta, and Sumbawa Besar are all authorized to issue more than 60 licenses.
- (d) Level of authority: All of the OSS but one (in Sleman) adopted a “one door policy” whereby the centers have the authority to receive and process applications for major

⁸ *Dinas* (technical department) is a LG unit that is intended to provide public service. Departments are led by high-ranking officials authorized to manage their own local budget. *Badan* (Agency/Board) and *kantor* (office) units are intended to support other LG units. *Badan* are also led by a high-level official and authorized to manage their own accounts. *Kantor* are led by a mid-level official whose local budget account is controlled by the Regional Secretariat. *Units* are established under the Regional Secretariat office (administratively and financially) and led by a low-ranking official.

licenses. This level of authority is higher than the “one roof policy” whereby services were co-located but the authority to process and issue licenses were still under the authority of a range of local government units.

- (e) Customer service/transparency: Prior to the PROMIS program, the costs and processing times for obtaining licenses were not clearly displayed or easily accessible to the public. As part of its technical assistance, the Foundation introduced “Standard Operating Procedures” in all OSS. SOPs require that clear information on the costs and time to process licenses be available on signboards at the OSS. Transparency was further ensured through the distribution of leaflets and brochures (as shown in **Figure 4**) containing clear and transparent information about costs and processing times. In addition, in order to maintain minimum service standards, all OSS introduced complaint centers. These mechanisms vary from place to place, and range from only having a grievance box to assigning customer service officials to file and handle complaints.

Figure 4. An OSS leaflet on nuisance permits produced by the OSS in Kota Yogyakarta



During the implementation of technical assistance, the Foundation, together with its partners, conducted basic capacity-building activities for OSS in all PROMIS sites. In all sites, the program supported initiatives to increase the basic knowledge and technical skills of OSS staff, and activities to assist in the review of regulations related to licensing procedures. Additional capacity building activities were provided to 18 PROMIS sites. This included customer service excellence courses for OSS staff (16 sites), IT trouble-shooting (6 sites), team-building (7 sites) and accounting courses (1 site, Banda Aceh). Staff from 7 sites received internships and staff from 10 OSS visited best practice sites, such as Yogyakarta’s OSS. Most of these additional activities were provided during the implementation of extension programs.

“In my ten-year career as a government official, this was the only training session where I did not sit all day and get bored. It was very interactive and fun because we learned through interactive exercises and simulations.”

Riswanida, OSS staff, Kota Limapuluh

Outcomes of Deliverable 1.1

Based on the outcome indicators of this activity, the achievements were:

- (f) Reduction in the time needed to obtain licenses and permits. As shown in Table 4 below, data collected from five districts found a significant reduction in the average time needed to obtain each license, ranging from a reduction of 18% in the time needed for company registration (TDP) to 56% reduction in the time needed for nuisance permits.

Table 4. Time of Processing for Major Licenses in PROMIS Sites

No.	Type of License	Average Time (Days)		
		Before	After	Progress
1	Construction Permit (IMB)	31	23	-27%
2	Nuisance Permit (HO/SITU)	14	6	-56%
3	Industrial Registration License (TDI)	11	6	-41%

No.	Type of License	Average Time (Days)		
		Before	After	Progress
4	Trading Permit (SIUP)	12	9	-28%
5	Company Registration License (TDP)	11	9	-18%

Source: TAF internal M&E System

Furthermore, one main problem with licensing practices in Indonesia was that the standard process was sequential – one license needed to be obtained before applying for the next. During the implementation of the TA, the Foundation helped local governments to pass a decree that allowed parallelization, meaning that multiple basic permits could be processed simultaneously. Because of this reform, the maximum time for obtaining three of the five main licenses (nuisance permit, company registration license, and trading permit or industrial registration) is now approximately nine days. The maximum time allotted for issuing a building permit (IMB) is around 23 days, and this process could be started at the same time as the other permits. Thus, the average time needed to obtain major licenses for starting a business was reduced, due to the parallelization, from 44 to 23 days. In total, the TA reduced average time of obtaining major licenses from 67-68 prior to PROMIS to 23 days (34-35%).

- (g) Reduction in the cost of obtaining licenses and permits. As seen in Table 5 below, the cost of obtaining three major licenses and permits after technical assistance. TA lowered costs by reducing the number of requirements and the number of interactions with disparate technical agencies. The costs of obtaining a construction permit, nuisance permit, and company registration license were reduced. Nuisance permit fees showed a particularly large decrease of 67 percent. Many of the Foundation's RIA programs focused on regulations related to the nuisance permit, and the Foundation was involved in national level advocacy for nuisance permit regulation reform.

Table 5. Processing Costs for Major Licenses in PROMIS Sites

No.	Type of License	Average Cost (IDR)		
		Before	After	Progress
1	Construction Permit (IMB)	728,450	628,333	-14%
2	Nuisance Permit (HO/SITU)	444,000	145,000	-67%
3	Industrial Registration License (TDI)	131,405	162,500	24%
4	Trading Permit (SIUP)	181,533	195,000	7%
5	Company Registration License (TDP)	100,000	75,000	-25%

Source: TAF internal M&E

- (h) Customer satisfaction surveys demonstrate positive results. All PROMIS sites in East Java have been independently evaluated through customer satisfaction surveys implemented with the advocacy efforts of the Foundation's partner, PUPUK Surabaya, and financed by each local government. According to the results, the service at Pasuruan's OSS was rated as excellent with a score of 83 %. Two districts received very good scores, Sidoarjo (79%) and Jombang (77%), while Lamongan, Probolinggo and Blitar also received good results (although no scores are available). Satisfaction surveys were also completed in Serdang Bedagai (North Sumatra) and Majalengka (West Java). Both sites were rated highly for customer service but received no quantitative scores.

- (i) Reduction in the number of requirements for businesses to obtain necessary licenses and permits. All participating LGs prepared regent / mayoral decrees to simplify licensing procedures. The number of supporting documents required to obtain licenses and permits was decreased overall by 24 percent as a result of this reform, as can be seen in Table 6. On average, ten less requirements are now needed to obtain key business licenses. Additionally, the number of requirements would be further reduced if an applicant were to obtain all major licenses simultaneously.

Table 6. Number of Requirements for Major Licenses in PROMIS Sites

No.	Types of License	Number of Requirements		
		Before	After	Progress
1	Construction Permit (IMB)	9.5	7.5	-21%
2	Nuisance Permit (HO/SITU)	9	6.5	-28%
3	Industrial Registration License (TDI)	7	7	0%
4	Trading Permit (SIUP)	9	5	-44%
5.	Company Registration License (TDP)	7	5.5	-21%
Total		41.5	31.5	-24%

Source: TAF internal M&E

- (j) Increase in volume of licenses processed. The number of business licenses issued by OSS in PROMIS sites increased significantly over the life of the program. As indicated in Table 7, based on data from six OSS surveyed, the volume of licenses increased 20% on average (from 3,442 licenses issued in 2007, to 4,134 licenses issued in 2008).

Table 7. Volume of Licenses Issued in Sampled PROMIS Sites

No.	District/Municipality (Province)	Number of Licenses Issued		
		2007	2008	Progress
1	Indramayu (West Java)	7,455	9,741	31%
2	Kota Cimahi (West Java)	1,134	1,703	50%
3	Kota Pekalongan (Central Java)	1,695	2,209	30%
4	Sidoarjo (East Java)	6,422	6,706	4%
5	Kota Blitar (East Java)	1,268	1,584	25%
6	Serdang Bedagai (North Sumatra)	2,675	2,863	7%
Average		3,442	4,134	20%

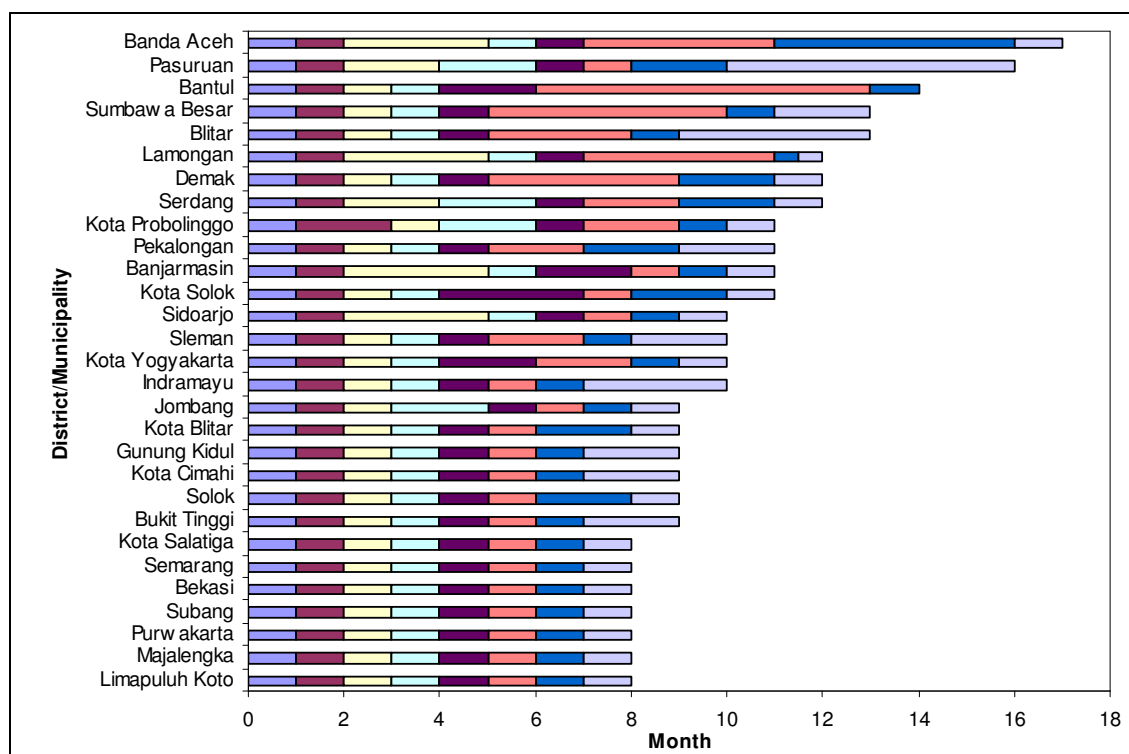
Source: TAF internal M&E

Process Indicators for Deliverable 1.1

- (k) Time to Achieve Benchmarks. PROMIS technical assistance for the establishment or upgrading of OSS took place in three main stages. The first round of technical assistance began in 2005, and included nine sites located in East Java, North Sumatra, Aceh and Central Java. The second batch of sites received TA beginning in 2006. At that time, the Foundation and its partners began working in West Java, East Kalimantan and West Sumatra. The final group of sites, covering 11 sites in East, Central and West Java, as well as West Sumatra, received TA beginning in 2007.

The Foundation's OSS work was measured using eight benchmarks that defined progress toward the objective of improving OSS services.⁹ Figure 5 shows that the average time it took districts to achieve all eight benchmarks was 10.4 months. In some cases there were gaps in achievement due to political reasons or resistance from local technical agencies. The gaps often occurred after recommendations and legal instruments were submitted (Benchmark 6), as these legal instruments had to undergo an approval process from the local parliament. As the benchmarks indicate, most locations in West Java progressed quickly and reached all benchmarks on target. Bekasi, Subang, Purwakarta, and Majalengka are examples of sites that made good progress.

Figure 5. Progress of OSS TA Against Benchmarks



While some local governments excelled, others failed to accomplish their goals. For example, in Deli Serdang, North Sumatra, the OSS team was unable to establish an OSS due to weak government commitment. Similarly, in Aceh Utara, technical assistance was completed before an OSS could be established. In some cases, resistance came from the local mayor or regent, and in other cases, local technical agencies that were profiting from the existing permit process were resistant to making changes in the system. The Foundation and its partners therefore worked hard to bring all stakeholders into the OSS process from the beginning of technical assistance.

⁹ The OSS benchmarks are: (i) completion of the assessment; (ii) issuance of a Regent/Mayoral decree for establishment of the OSS Technical Team; (iii) submission of minutes of the planning meeting and workshop; (iv) completion of the business licensing mapping report and recommendations; (v) completion of an action plan and recommendations; (vi) completion of draft legal documents; (vii) completion of staffing program recommendations; and (viii) submission of a final workshop summary and news clipping/articles.

Six sites which showed high initiative and political will– Serdang Bedagai, Indramayu, Kota Cimahi, Kota Banda Aceh, and the Provinces of West and Central Java – were provided extensions of technical assistance from the Foundation. This began in mid-2007 and was mostly used to introduce IT systems and boost customer service by developing standard operating procedures. In other sites, technical assistance extensions were provided for a specific program, mass licensing, which was implemented in 18 districts/municipalities throughout Indonesia on April 1, 2008.

- (1) Participation in OSS Activities. As depicted in **Figure 7**, the program was successful in increasing the participation of private sector representatives in business licensing activities. In early 2007, no private sector representatives were participating in business licensing activities. By 2008, as many as 24% of participants in OSS activities were from the private sector.

However, the Foundation was unable to increase female participation significantly. The proportion of female participants in OSS activities remained stable at around 30% from one period to the next. It is interesting to note that the participation of NGOs and other stakeholders in OSS activities decreased during the same period. This suggests that NGOs dropped out of the process given that they did not perceive business licensing reform to be among their core interests.

Figure 6. Gender Breakdown of Participants in OSS Activities

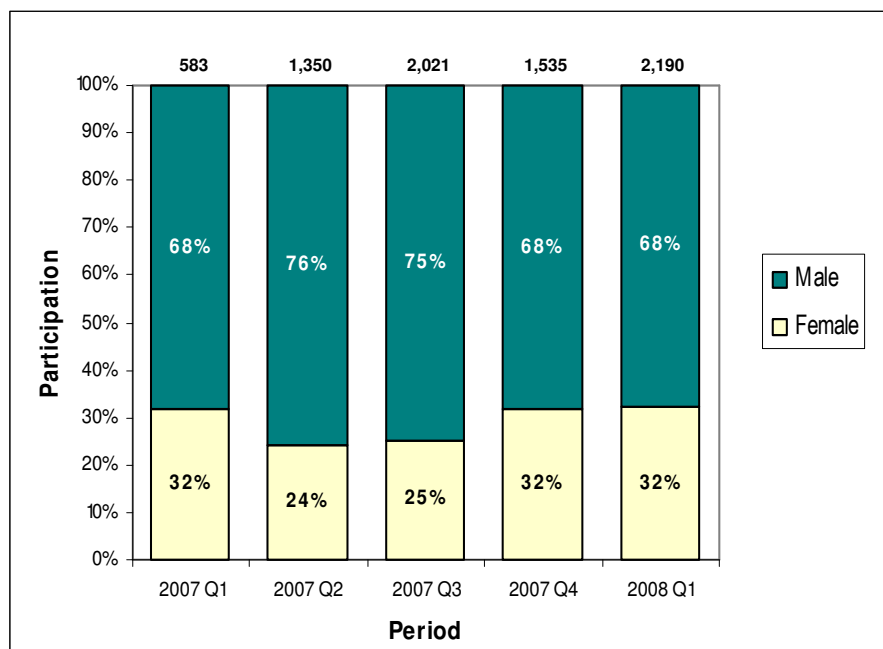
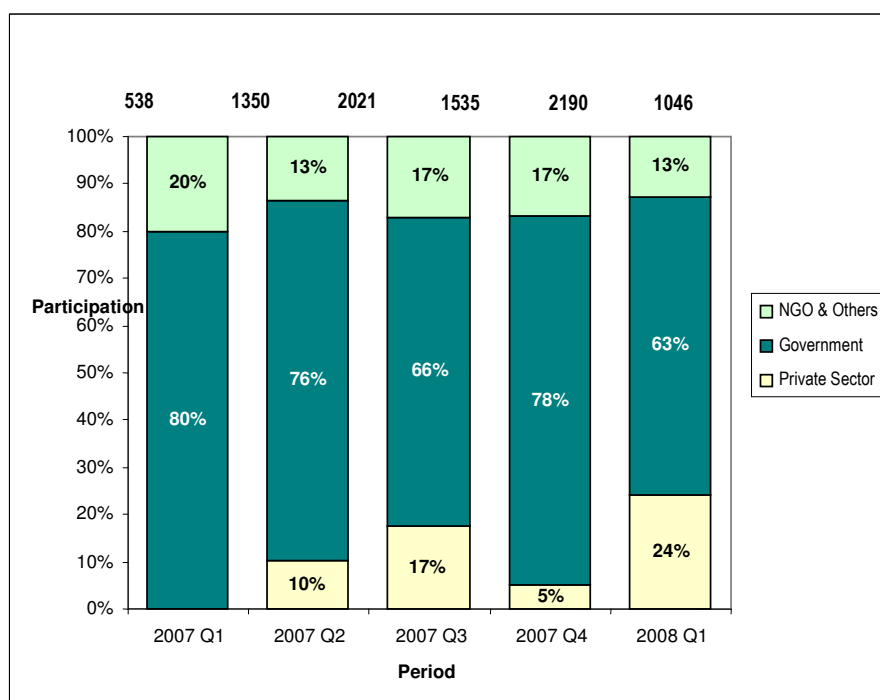


Figure 7. Breakdown of Participants in OSS Activities by Profession



Summary of Achievements of Deliverable 1.2

Table 8. Summary of Achievements of Deliverable 1,2 of Activity 1 of the Streamlining Business Licensing and Registration Component

Targets	Achievements
<i>Outputs:</i> At least 9 local governments have demonstrated capacity to undertake Regulatory Impact Assessment (RIA) to identify licenses that are unnecessary, redundant or not applicable to all businesses.	<ul style="list-style-type: none"> 12 OSS sites received TA on RIA and reviewed 23 local regulations related to business licenses.
<i>Outcomes:</i> Number of restrictive requirements removed or exemptions created through local policy reform.	<ul style="list-style-type: none"> 5 local regulations in 3 districts were revised based on RIA statements. 8 draft local regulations in 4 other districts were submitted to the local parliaments (DPRDs), 6 of which are expected to be issued in 2009. 1 local regulation and 7 Regent/Mayoral Decrees on parallelization of licensing were issued, reducing requirements for business licensing.

Outputs of Deliverable 1.2

As the table below indicates, 12 local governments which were OSS sites have demonstrated the capacity to use the Regulatory Impact Assessment (RIA) tool to assess regulations relevant to business licensing. Table 9 shows the technical assistance provided on RIA as a complement to TA provided to OSS. The RIA teams in these districts reviewed 23 licensing-related regulations – mostly related to nuisance, construction, and trading permits – and formulated RIA Statements (RIAS).

Table 9. Business Licensing Regulations Reviewed, 2005-2008

No.	District/ Municipality	Province	Topic of Regulations Assessed
1	Solok	West Sumatra	Construction Permit (IMB)
			Nuisance Permit (HO)
2	Purwakarta	West Java	Trading Permit (SIUP)
			Business Registration (TDP)/Wajib Daftar Perusahaan (WDP)
3	Indramayu	West Java	Location Permit (<i>Retribusi Izin Lokasi</i>)
			Land Use Permit (IPPT)
4	Kota Pekalongan	Central Java	Nuisance Permit (HO)
			Advertisement Tax (<i>Izin Reklame</i>)
5	Kota Salatiga	Central Java	Nuisance Permit (HO)
			Construction Permit (IMB)
6	Semarang	Central Java	Nuisance Permit (HO)
			Trading Permit (SIUP)
			Construction Permit (IMB)
7	Bantul	DI Yogyakarta	Nuisance Permit (HO)
			Construction Permit (IMB)
8	Gunungkidul	DI Yogyakarta	Nuisance Permit (HO)
			Advertisement Tax (<i>Izin Reklame</i>)
9	Kulonprogo	DI Yogyakarta	Construction Permit (IMB)
			Nuisance Permit (HO)
10	Pasuruan	East Java	Tourism License (SIUK)
			Industry and Trade Related Licenses (e.g., SIUP, TDP, TDI)
11	Sidoarjo	East Java	Nuisance Permit (HO)
12	Kota Blitar	East Java	Trading permit (SIUP)

Outcomes of Deliverable 1.2

Five of the recommended revisions to local regulations (*perda*) on business licensing were approved by DPRD in Kota Pekalongan, Kota Blitar, and Solok. In Kota Pekalongan, revisions to a *perda* on local nuisance permits and advertisement taxes were approved by the DPRD. In Kota Blitar, revisions to a *perda* on trading permits have been approved. Revisions to *perda* on construction permits and nuisance permits have also been successfully made in Solok. Eight other draft local regulations have been submitted to the DPRD in four districts – Indramayu (West Java); Bantul, Gunungkidul and Kulonprogo (DI Yogyakarta). Six of the draft regulations submitted to the three districts in the province of DI Yogyakarta are programmed for DPRD deliberations and issuance in 2009.

In addition, most PROMIS sites successfully adopted new regulations that exempt and/or reduce the number of licensing requirements. Local governments in Kota Banda Aceh, Serdang Bedagai, Probolinggo, Pasuruan, Sidoarjo, Blitar, Kota Cimahi, and Kota Pekalongan issued decrees allowing licenses to be issued in parallel without a duplication of common requirements.

Activity 2: Establish a Community of Practice to Streamline Business Licensing

Summary of Achievements of Deliverable 2.1

Table 10. Summary of Achievements of Deliverable 2.1 of Activity 2 of the Streamlining Business Licensing and Registration Component

Targets	Achievements
<i>Outputs:</i> Four provinces host regular roundtables on the business environment to build a community of practice that will develop and advocate for improvements to business licensing.	<ul style="list-style-type: none"> 8 provinces held 24 provincial roundtables on the business environment.
<i>Outcomes:</i> Number of local governments initiating improvements following their involvement in the roundtables and in the level of cost share of the roundtable.	<ul style="list-style-type: none"> The provincial roundtable in West Java led to the establishment of provincial-level OSS and OSS forums. The provincial roundtable in Central Java led to the establishment of a provincial OSS support center.

Outputs of Deliverable 2.1

In order to complement on-going OSS and RIA activities, the Foundation and its partner, *Bisnis Indonesia*, organized 24 business roundtable discussions in 8 provinces between May 2006 and June 2007. Roundtables were held in North Sumatra, West Sumatra, West Java, Central Java, East Java, DI Yogyakarta, East Kalimantan and South Sulawesi and included academics and representatives from the government, the private sector, and local NGOs. In addition to their role as a venue for discussing how to improve the regional business environment, the roundtables also served as a preliminary activity to assess the possibility for further province-level assistance programs.

Bisnis Indonesia commenced the provincial roundtable program with a May 8, 2006 launch event in Medan. This event was hosted by Mohammad Lutfi, the Head of the National Investment Coordination Board (BKPM), along with other regional business and government leaders. The first series of 12 roundtables took place in 2006 and focused on the provincial business climate and the relationship between the central government and regions regarding business development and licensing. Following a review of the first 12 provincial roundtables, the Foundation decided to focus the remaining 12 discussions on two main areas: (i) licensing issues, including OSS development; and (ii) regulatory burden, including the need for RIA processes at the local and provincial governments in 6 provinces (excluding North Sumatra and East Kalimantan).

Outcomes of Deliverable 2.1

The business roundtables engaged a variety of participants from government, NGO organizations and the private sector, on issues relevant to provinces. However, the topics rarely led to local governments initiating specific improvements. This was due in part to the choice of partner for this activity, *Bisnis Indonesia*. While *Bisnis Indonesia* was able to positively contribute to the program by bringing in key private sector players from Jakarta and local business associations, such as the Real Estate Indonesia (REI), the Indonesian Employers Association (APINDO), and the Indonesian Chamber of Commerce (KADIN), the organization lacked knowledge of local issues and contacts with local government officials, both at the district level and the provincial level.

To address these issues, in late 2006, the Foundation altered its strategy. *Bisnis Indonesia* was encouraged to work with the Foundation's local partners to identify key issues and participants. The Foundation also focused the issues on business licensing and regulatory reform, which would also complement its other programs. A few of the round table sites were also shifted to PROMIS program sites (for example, North Sumatra was replaced by West Java). This change in strategy worked to a certain degree.

One of the more successful roundtable events took place in Bandung, West Java. The provincial roundtable successfully contributed to the establishment of the provincial OSS in West Java. With the help of the Foundation's Partner, B-Trust, the government of West Java was motivated to establish an OSS Center, which provides licensing services at the provincial level and monitors the performance of district level OSS. Currently, West Java's provincial OSS is one of two existing provincial OSS in Indonesia. Additionally, the roundtables held in Semarang motivated the governor to establish a provincial OSS Support Center and to mandate OSS establishment in all Central Java districts.

Summary of Achievements of Deliverable 2.2

Table 11. Summary of Achievements of Deliverable 2.2 of Activity 2 of the Streamlining Business Licensing and Registration Component

Targets	Achievements
<i>Outputs:</i> Six provinces have NGOs capable of providing TA to OSS.	<ul style="list-style-type: none"> 14 NGOs in 9 provinces have capacity to provide TA to provincial/local governments on OSS
<i>Outcomes:</i> Survey of local governments to assess satisfaction with the NGO partners and the level of cost share towards the expense of TA.	<ul style="list-style-type: none"> 5 NGOs (of 14 total) provided TA to local governments outside PROMIS sites, supported by either local government budgets or other programs.

Outputs of Deliverable 2.2

Fourteen NGOs in 9 provinces have the capacity to provide technical assistance to OSS. The Asia Foundation had an explicit strategy to build local expertise among NGOs that could then provide sustainable technical assistance to local government. Local NGO partners were trained and monitored intensively throughout the technical assistance. Capacity building activities included training in the areas of 'Technology of Participation,' OSS operations, baseline survey, monitoring and evaluation, and financial management. Except UNSYAH, UNIMAL, BITRA and Yayasan LOH, all partners were also provided RIA Training that included training on *Perda* Mapping.

Figure 8. A Training Session for Local Partners



Outcomes of Deliverable 2.2

The primary outcome of the capacity building activities is that the local NGO partners have gained expertise and capacity that is recognized by local and provincial governments. The governments have therefore requested continuing support from these NGOs, such as:

- *Perkumpulan untuk Penguatan Usaha Kecil (PUPUK)* Surabaya, through its OSS Center, provided technical assistance to OSS in 10 districts in 8 provinces, financed by local government. The districts which received assistance include Payakumbuh (West Sumatra); Kota Metro and Bandar Lampung (Lampung); Serang (Banten); Sambas (West Sumatra); Kota Kutai Kertanegara (East Kalimantan); Baubau (Southeast Sulawesi); Sampang and Kota Malang (East Java); and Kota Ambon (Maluku).
- *Daya Prosumen Mandiri (DPM)*, a Yogyakarta-based NGO, held OSS training sessions for 12 districts, funded by the districts' own budgets. The first session was held in February 2007 for Demak and Boyolali (Central Java); Kotawaringin (Central Kalimantan); Tangerang (Banten); Nabire (Papua); and Bantul and Gunungkidul (DI Yogyakarta). The second training, in November 2007, included participants from Kota Semarang, Karanganyar and Tegal (Central Java); Katingan (Central Kalimantan); and Gunungkidul, Kulonprogo and Bantul (DI Yogyakarta).
- The Bandung Trust Advisory Group (B-Trust) provided TA to 7 districts in West Java (Kota Bekasi, Bogor, Kota Cirebon, Kota Bandung, Bandung, Kota Depok, Kuningan) and the provincial government of West Java, financed by local government. They also provided consultancy services and references for all districts in West Java on OSS establishment and enhancement.
- *Pusat Kajian Sosial, Budaya dan Ekonomi (PKSBE)*, a Center that is part of the State University of Padang, West Sumatra, provided consultancy services on OSS to Kota Bukittinggi and Kabupaten Lima Puluh Kota, financed by local government.
- *Yayasan BITRA Indonesia*, a Medan-based NGO, provided OSS TA to 2 districts, Kota Tebing Tinggi and Samosir in North Sumatra.

The tremendous amount of assistance that PROMIS partners have been able to provide at the request of district government bodies well for the longer-term sustainability of the OSS program.

Activity 3: Rationalization of Licensing Requirements at the Provincial and Central Government Level

Summary of Achievements of Deliverable 3.1

Table 12. Summary of Achievements of Deliverable 3.1 of Activity 3 of the Streamlining Business Licensing and Registration Component

Targets	Achievements
<i>Outputs:</i> At least 3 provincial governments strengthened to provide improved or more numerous investor services, including better information and/or outreach services.	<ul style="list-style-type: none"> • Three provincial governments received TA. • Two provincial-level OSS were established, in the provinces of West Java and Nanggroe Aceh Darussalam. • Three provincial OSS support centers were established in the provinces of West Java, Central Java and Nanggroe Aceh Darussalam.

Targets	Achievements
<i>Outcomes:</i> Number of services being offered and number of investors using the facilities.	<ul style="list-style-type: none"> • The OSS in West Java and Nanggroe Aceh Darussalam provinces were authorized to issue 79 and 160 types of licenses, respectively. • OSS support centers in West Java and Central Java developed their own monitoring tools and monitoring activities. • All three provincial OSS provided capacity-building services and hosted district-level OSS forums. • Provincial guidelines on OSS establishment were issued in West Java.

Outputs of Deliverable 3.1

The Asia Foundation and its partners supported three provincial governments that showed the commitment to promoting licensing reforms: Nanggroe Aceh Darussalam, West Java and Central Java. Provincial-level OSS were established in the provinces of West Java and Nanggroe Aceh Darussalam. The OSS in West Java was established within the investment board, while the OSS in Nanggroe Aceh Darussalam was established as an independent agency. Both OSS were established through provincial regulations. In all three provinces, the provincial governments also developed OSS Support Centers, which were responsible for supporting the establishment and improvement of district-level OSS.

Outcomes of Deliverable 3.1

The One Stop Shops in West Java and Nanggroe Aceh Darussalam were authorized to issue 79 and 160 types of licenses, respectively. These provincial OSS do not issue the main licenses for business start-up, which are issued by districts, but they do issue licenses related to cross-district business activities (e.g., trade activities) and natural resources that have multi-district impacts. Provincial OSS are also able to provide recommendations necessary for establishing larger businesses.

All OSS Support Centers established conducted several activities to provide support the district-level OSS. For example, OSS Support Centers in West Java and Central Java developed their

Figure 9. OSS Guidelines in West Java



own Provincial OSS Performance Indices (POPI) based on The Asia Foundation's OSS Performance Index (OPI) model, and utilized this tool for monitoring district OSS performance.¹⁰ In addition, these Centers also conducted capacity-building activities and hosted district-level OSS forums to allow knowledge sharing and to develop common OSS service standards. The Province of West Java developed OSS guidelines and published a Governor Regulation mandating all districts to establish OSS following the guidelines. These guidelines were used by the Ministry of Home Affairs as a basis for developing national-level guidelines (see next sub-chapter on *National Decree and Guidelines on OSS*).

¹⁰ For more information on the OPI, see sub-chapter G.1 of this report on the *OSS Performance Index*.

Summary of Achievements of Deliverable 3.2

Table 13. Summary of Achievements for Deliverable 3.2 of Activity 3 of the Streamlining Business Licensing and Registration Component

Targets	Achievements
<i>Outputs:</i> Regulatory structure and process at different levels of government reconsidered by policymakers and revised to eliminate redundancy.	<ul style="list-style-type: none"> • TA was provided to the national government to prepare a National Decree and Guidelines on OSS. • The results of local-level regulatory reviews on the Nuisance Permit (HO/SITU) were used for national-level advocacy. • Heads of 17 Provincial Investment Agencies discussed their roles in improving the investment climate.
<i>Outcomes:</i> Quality and number of changes to relevant regulations.	<ul style="list-style-type: none"> • <i>Ministry of Home Affairs Decree No. 24/2006</i> on local-level OSS was issued, accompanied by OSS Guidelines. • As many as 293 OSS were established across Indonesia, largely in response to the MOHA decree and guidelines. • A draft Ministry of Home Affairs Decree on simplification of the Nuisance Permit was formulated. • A policy paper for enhancing the role of the provincial government's investment agency was prepared and submitted to the National Investment Coordination Board (BKPM).

Outputs of Deliverable 3.2

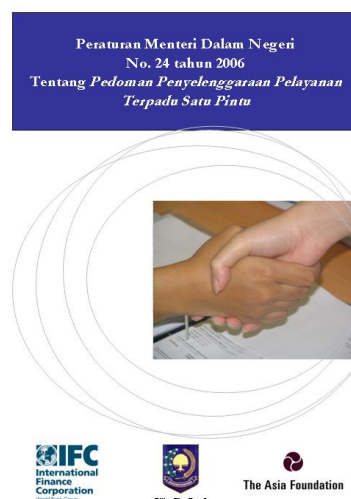
(1) National Decree and Guidelines on OSS

Presidential Instruction No. 3/2006 on *Improving the Investment Climate* called for a number of initiatives to accelerate economic investment. The Ministry of Home Affairs (MOHA) was appointed to draft guidelines for establishing One Stop Shops. Due to the Foundation's expertise in business licensing, MOHA requested technical support from the Foundation to develop the guidelines, and to draft a decree on OSS. The Foundation provided assistance to MOHA in partnership with its long-established partner, B-Trust, a Bandung-based NGO.

The Foundation's facilitated a series of inter-departmental consultations at the national level, followed by consultations with provincial and district governments in Makassar, Solo and Bali. A national seminar to obtain final stakeholder inputs was held on May 3, 2006 in Jakarta. The decree was completed in July 2006.

The Foundation then worked with the International Finance Corporation (IFC) and MOHA to produce OSS guidelines meant to clarify the procedures for establishing OSS at the district level. The drafting team included academics and provincial government officials, and was vetted through consultations held in Yogyakarta, Bali, Makassar, and Banjarmasin. The final draft was finished in April 2007.

Figure 10. Guidelines on the Establishment of OSS



The Foundation was also involved in facilitating public consultations related to a draft presidential decree on OSS for investment licenses. A new investment law, No. 25/2007, was issued in early 2007. The new law specifically addressed the role of OSS in attracting investment by simplifying business licensing procedures. An inter-ministerial team, including the National Investment Coordination Board, the Ministry of Trade, and the Coordinating Ministry for the Economy was established to discuss this role in more detail. The Asia Foundation facilitated consultations between the team and local and provincial governments.

(2) Advocacy for Nuisance Permit Legislation Reform

Through the mapping of local regulations, the Foundation discovered that certain permits are particularly cumbersome to business owners. The nuisance permit (HO/SITU) – a requirement left over from Dutch law that requires businesses to establish that their activities are not nuisance to their neighbours – is particularly confusing and complex. RIA teams in 6 districts in Central Java Province (Semarang, Kota Salatiga, Kota Pekalongan, Kendal, Demak and Grobogan) assessed the process for obtaining a nuisance permit. Findings were consolidated with recommendations from TAF-facilitated RIA sites in Sulawesi¹¹ and sent to the Minister of Home Affairs. At the same time, the Foundation advocated for reform and acceptance of the nuisance permit proposal within the Ministry of Home Affairs (MOHA).

In March 2008, MOHA responded by conducting additional focus group discussions (FGDs) in Central Java and DKI Jakarta area to better understand the issues related to nuisance permits. MOHA then formed a Nuisance Permit Reform Team that included officials from MOHA, the State Ministry for the Environment and local government as well as NGOs, academics and lawyers. During the discussions, the team brainstormed the best way to address the issues, and decided to incorporate reform to the nuisance permit in a broader environmental law that was scheduled to be reviewed by the national parliament (DPR). The Foundation supported a second team to conduct FGD at the end of April 2008, which resulted in the development of a position paper explaining the reasoning of the team's recommendation. The team also drafted a Ministerial Decree, with guidelines for local governments on how to simplify the nuisance permit at the district level.

(3) National Seminar on the Role of the Provincial Investment Agency Associations

On September 12, 2008, the heads of the provincial investment boards from 17 provinces attended a national seminar on the role of in promoting private sector development. The Foundation was requested to facilitate this seminar and help to draft a policy paper with recommendations for the national government related to better investment services in Indonesia. In particular, these recommendations focused on the role of provinces in the development of more harmonized OSS services and institutionalized RIA methods at the local level.

Outcomes of Deliverable 3.2

(1) National Decree and Guidelines on OSS

With support from the Foundation and its partner, the decree on OSS was completed and signed into policy as the *Ministry of Home Affairs Decree No. 24/2006* on July 6, 2006. The Foundation, MOHA and the International Finance Corporation (IFC) worked together to

¹¹ An additional 4 districts in Sulawesi (Minahasa, Gorontalo, Kota Gorontalo and Kota Makassar) also reviewed the process to obtain a nuisance permit, with support from the CIDA-financed *Improving the Business Environment for SMEs in Sulawesi* (IBESS) program implemented by The Asia Foundation.

disseminate the decree in Denpasar, Makassar, Balikpapan, and Semarang in September 2006.

Guidelines on the Establishment and Improvement of One Stop Shops were also developed by MOHA with support from the Foundation and IFC, and launched in May 2007. The guidelines covered guidance for district governments on developing OSS policy, the technical steps that should be taken to improve the quality of services by OSS, and templates for commonly-used forms and paperwork. Over 400 guests, including local government officials from across Indonesia, attended the launch.

In 2008, the State Ministry for the State Apparatus Empowerment reported that 293 districts had established OSS to comply with the MOHA decree.

Djiman Sarosa, MOHA's Director for Local Economic Development, reported that prior to June 2006, OSS had been implemented in just 30% of all districts in Indonesia. After the passage of MOHA Regulation No.24/ 2006 mandating the creation of OSS in all districts, OSS services were scaled up in 2008 to an additional 293 districts. The Director noted that "conditions in the field make it hard to maintain OSS quality across districts. We hope these national guidelines facilitate better OSS implementation."

(2) Advocacy for Nuisance Permit Legislation Reform

A draft decree on simplification of the nuisance permit at the district level was formulated and submitted to the Minister of Home Affairs. It is expected that the decree will be issued in 2009.

(3) National Seminar on the Role of the Provincial Investment Agency Associations

A policy paper on the provincial investment board's role in supporting local-level business licensing and the implementation of RIA was submitted to the National Investment Coordination Board (BKPM) in February 2008.

Activity 4: E-Government Applications for Business Licensing

Summary of Achievements of Deliverable 4.1

Table 14. Summary of Achievements for Deliverable 4.1 of Activity 4 of the Streamlining Business Licensing and Registration Component

Targets	Achievements
<i>Outputs:</i> Licensing applications available online. Linkages established between the provincial investment board websites with local government websites in the provinces so that applications are easily available to investors.	<ul style="list-style-type: none"> 9 districts received TA on using Information Technology (IT) as part of OSS.
<i>Outcomes:</i> Number of websites and number of hits to these pages.	<ul style="list-style-type: none"> 14 OSS developed websites: 9 districts with TA from PROMIS, and 3 districts and 2 provinces using their own budgets. 2 websites allow customers to download licensing applications, submit applications online and use short message services (SMS) to check their application status and file complaints.

Outputs of Deliverable 4.1

Technical support for utilizing information technology (IT) was provided to OSS, achieving

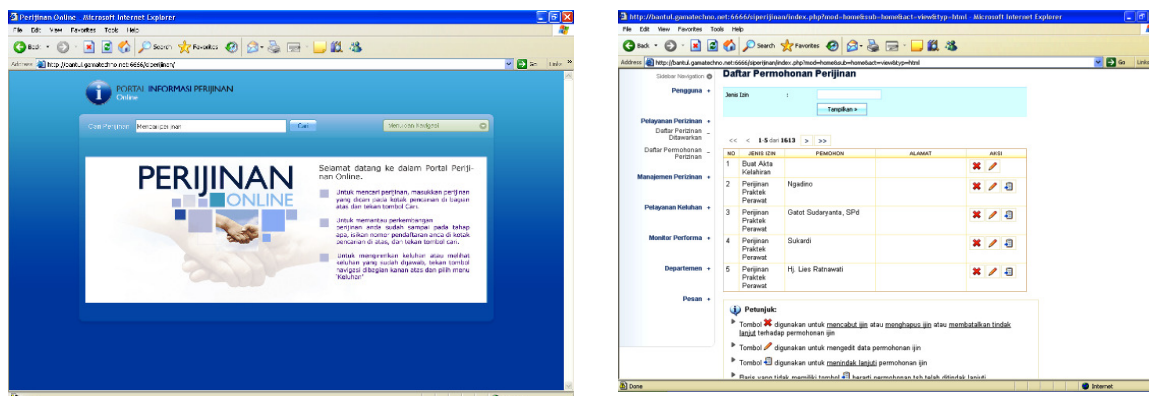
impressive results during the initial technical assistance period. The Foundation provided TA on IT in 9 sites: Kota Banda Aceh, Serdang Bedagai, Bantul, Kota Probolinggo, Kota Blitar, Pasuruan, Jombang, Kota Probolinggo and Sidoarjo. A range of e-government services were introduced to support OSS, including the capability to process licensing applications and maintain documentation, to download application forms and to track applications online. IT applications also included a reporting function, which enabled OSS to track the volume of licenses processed and the consistency of services against minimum service standards.

Outcomes of Deliverable 4.1

Fourteen OSS developed websites to provide licensing information to customers. These included all nine sites which received IT technical assistance from PROMIS, plus Majalengka, Kota Cimahi and Kota Yogyakarta, which developed websites using their own initiative and funding. At the provincial level, the One Stop Shops in Aceh and West Java also developed websites. All of the OSS websites are linked to local government websites and provide information on the licensing services available. Several websites provide a higher level of services, with examples that include the following:

- The most advanced websites, in Sidoarjo and Majalengka, allow customers to download licensing applications, submit their applications and supporting documents online, check their application status and file complaints by SMS (short messaging service).
- The Kota Blitar and Kota Yogyakarta websites allow customers to download their licensing applications, check their application status and file complaints by SMS.
- The OSS websites in Bantul, Kota Probolinggo, Kota Banda Aceh, Pasuruan, Lamongan, and Kota Cimahi allow customers to download licensing applications.

Figure 11. A mock-up of the web-based integrated business licensing system being developed in Bantul with support from PROMIS



Summary of Achievements of Deliverable 4.2

Table 15. Summary of Achievements of Deliverable 4.2 of Activity 4 of the Streamlining Business Licensing and Registration Component

Targets	Achievements
Outputs: Automated complaint centers installed in 9 local governments' OSS.	<ul style="list-style-type: none"> Automated complaint handling systems were installed in 5 sites.

Targets	Achievements
<i>Outcomes:</i> Number of complaints handled and customer satisfaction survey.	<ul style="list-style-type: none"> Most the complaints received were resolved with an average processing time of 1-2 days.

Outputs of Deliverable 4.2

The Foundation helped to install complaint mechanisms, including complaint boxes, in all sites. Five One Stop Shops have also installed automated complaint mechanisms. Through automated complaint centers, customers can register their comments and complaints by sending a SMS (short messaging service) from their mobile phones, or by sending an email. SMS gateway services are available in Kota Yogyakarta, Sidoarjo, Kota Blitar and Majalengka, and an email complaint system is available in Kota Cimahi.

Outcomes of Deliverable 4.2

Although automated complaint handling mechanisms are available in five sites, they are rarely used. The system in Majalengka was launched in early 2009 but had not received a single SMS complaint within the first month of operations. Similarly, no complaints were received by the Cimahi service, while Sidoarjo and Kota Blitar only received 27 and 12 complaints, respectively. When complaints were received, they were resolved within a reasonable time period.

F. Case Studies

1. Kota Yogyakarta: A Model One Stop Shop

At the 2007 Investment Awards held in December 2007, President Susilo Bambang Yudhoyono awarded Kota Yogyakarta the title of “Best One Stop Shop,” due to the efficiency of its licensing center. The OSS in Kota Yogyakarta has become a model for other licensing centers throughout Indonesia, with the aid of PROMIS.

When PROMIS began providing technical assistance in 2003, the Municipal Government of Yogyakarta only provided basic front office licensing services that issued 12 licenses. Between 2003 and 2006, The Asia Foundation and its partners provided technical assistance and services to the Yogyakarta OSS, including in-house training for OSS staff. Disparate licensing services in local government offices were consolidated into one efficient licensing center. With PROMIS assistance, the One Stop Shop’s legal authority was raised, allowing licenses and permits to be processed with fewer delays and hassles for local businesses.

Figure 12. Inside the Yogyakarta OSS



When the upgraded OSS was launched on January 2, 2006, it was able to process 38 different licenses. Over the last three years, this number has increased to 75. The office issues a number of key licenses important for investment, including business registration licenses, construction permits and trading permits. The government also introduced parallel licensing procedures, which

had sped up the licensing process, and created an information and communications center for all local government services. The customer-friendly, efficient practices of the Yogyakarta OSS have inspired many other districts to introduce similar services in their own OSS.

2. Mass Licensing in Kota Cimahi

During a mass licensing event held on April 1, 2008, the Kota Cimahi, West Java processed and issued 1,116 documents in one day.¹² Most licenses issued were business registrations (TDP), trading permits (SIUP) and nuisance permits (HO). As many as 154 small businesses, 60% of which were small women-owned enterprises, obtained their first business formalization free of charge.

The mass licensing event also helped businesses access direct credit through 4 leading banks in Cimahi (Bank Jabar, Mandiri, BNI and BRI). Twenty-eight eligible small businesses were able to sign their credit contract agreements on the day of the event. Expert consultants provided by the government also offered free consultations on business strategies for small

Figure 13. Customers at the Mass Licensing Event in Cimahi



businesses. The event was widely covered by all leading local media including *Pikiran Rakyat*, *Tribun Jabar*, TVRI Jabar and Bandung TV, as well as national media outlets such as *Kompas*, *Republika*, RRI and Metro TV.

"The mass licensing event held by the Cimahi government helped small businesses like mine to get business licenses, especially because it was free and quick. Now my business is formal, and we hope the government holds more events like this to support businesses in Cimahi." (Ibu H. Siti Salamah, owner of a traditional drink and crackers home industry)

G. Additional Activities

1. The OSS Performance Index

The Foundation has developed an OSS performance Index (OPI) to measure indicators of One Stop Shop performance.¹³ The Index has five components, each which has a range of indicators that are used to measure with both quantitative and qualitative inputs. The components include:

- Legal structure: the organizational status, legal basis, and authority of the OSS;
- Operational mechanisms: human resources development strategy, standard operating procedures, and payment mechanisms;
- Volume of activity: the volume of new license applications and license extensions;
- Customer perceptions: the experience of OSS users related to availability of information and the ability of OSS staff to handle complaints;

¹² This number includes non-license documents such as the tax registration (NPWP) and 404 business licenses.

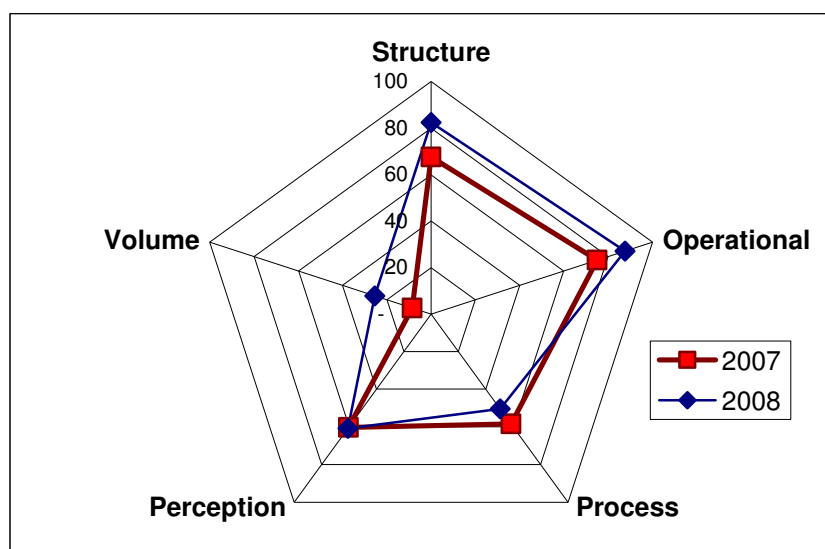
¹³ The OPI has already been officially adopted by the provincial governments of West Java and Central Java.

- **Licensing process:** the actual requirements, the time and costs of processing five main licenses as compared to the requirements, the time and costs as stipulated by policy.

Data for the OPI is collected through baseline and monitoring surveys. Each component has different maximum scores based on their relative importance and difficulty. In PROMIS districts, baseline data was collected before the technical assistance began, and monitoring surveys were conducted after technical assistance was completed. A “spider chart” of OPI indicators measured in Blitar (**Figure 14**) shows that the establishment of the OSS significantly increased the volume of licenses issued in the district. It also indicates that the One Stop Shop’s legal structure and operation mechanisms improved after technical assistance.

The Foundation published a paper on the OPI monitoring process in the report *Measuring One Stop Shop Performance in Indonesia*.

Figure 14. Example of the OPI Results (Kota Blitar)



2. One Stop Shops for Procurement

The OSS has successfully consolidated licensing authorities from multiple government departments to one center, effectively reducing corruption and improving services. The government procurement process presents a similar challenge. Procurement of goods and services by local governments represents nearly 31% of the national budget, but an estimated IDR 48 trillion is wasted annually due to corruption and collusion.¹⁴ Procurement processes are often inefficient, corrupt and discriminatory to small businesses (i.e., they are both legally and illegally geared toward larger, politically-connected firms).



Figure 15. A Surabaya radio talk show focuses on procurement reform

¹⁴ Kominfo-Newsroom, accessed from <http://www.endonesia.com/mod.php?mod=publisher&op=viewarticle&cid=5&artid=784> -

Procurement reform is generally comprised of four main pillars of activity: regulations, institutions, capacity building and system transparency (such as e-procurement). Based on the Foundation's research, no organizations in Indonesia are tackling the institutional aspects of procurement at the district level. To reform local procurement requires the realignment of departmental authorities and the creation of performance incentives that are at the core of the current OSS licensing program. The Foundation and its partners have begun to explore how the OSS model can be used to bring greater transparency and accountability to local government procurement systems. This is a natural evolution of the OSS program, which could both expedite small business formalization on the one hand, and open new business opportunities with the government on the other.

The Foundation consulted with governments that have already experimented with OSS-type procurement centers with great success. For example, the Surabaya government's reform program saved 23% of the total budget and quadrupled the number of firms competing to win government contracts. As part of the PROMIS extension, the Foundation established pilot OSS procurement units within the Province of West Java, Kota Cimahi (West Java) and Kota Surabaya (East Java) governments. Results in each site are described below:

West Java

In West Java, the Foundation and its partners conducted a diagnostic study of the current procurement process and regulations, followed by a thorough analysis of findings. These were followed by consultations with the Mayor of Cimahi and the Governor of West Java to confirm political support for procurement improvements. To receive feedback from the private sector, study results were disseminated through a public workshop. After the study was completed, the Foundation worked with its partners to develop a new procurement process model and drafted new mayoral and governor decrees.

With the support of the PROMIS program, the new OSS procurement center in West Java was launched on May 28, 2008. The procurement reform team simultaneously launched the OSS governor's decree on procurement. In West Java the procurement center conducted ten pilot procurement processes in 2008. By the end of 2009 it is expected that all procurement activities will be handled by the new procurement center. West Java is also implementing electronic procurement to support the new center, utilizing national e-procurement system developed by the National Development Planning Agency (BAPPENAS).

Cimahi

The Cimahi OSS procurement center was officially launched on July 8, 2008. The procurement center in Cimahi integrates all types of government procurement, so that no major procurement processes take place outside of the procurement center offices. An estimated figure of IDR 48 trillion in procurement will be processed through the Cimahi OSS procurement center. An e-procurement system will also be set up in Cimahi in 2009. Cimahi procurement centers will also use the national e-procurement system developed by BAPPENAS.

Figure 16. An OSS Procurement Banner in Cimahi



Surabaya

The Foundation and its partner, PUPUK Surabaya, through its OSS Center, provided support for the municipal government to establish an OSS procurement center in Surabaya. The procurement center aims to complement Surabaya's excellent e-procurement system with institutional reorganization, using the OSS approach. As in Cimahi, the center integrates all types of government procurement within one office.

Figure 17. The OSS Procurement Center in Surabaya



In August 2008, Surabaya's new procurement center office was completed and training sessions were held for new staff. The Foundation also helped to organize a series of workshops on procurement contract revisions. Workshop participants, including lawyers, association members, and procurement unit staff, revised standard procurement contract documents in order to make them more comprehensive from both a legal and a practical standpoint. In September 2008, the Foundation and its partners focused on disseminating information about the new procurement center in Surabaya. This was achieved through a radio talk show and two seminars attended by private sector associations and government partners.

National Procurement Workshops

With PROMIS support, the Foundation held two workshops on procurement. The first workshop took place in August 2008 in Jakarta and was attended by representatives from 25 local procurement offices in West Java, Central Java, Sumatra, and Kalimantan. The forum allowed local procurement officers to share information about local procurement reform initiatives and to learn about the reforms implemented by the provincial government in West Java.

In September 2008, the Foundation also organized a two-day workshop in Jakarta to gather input for the revision of procurement-related regulations. This meeting was suggested by staff of district procurement center, who found that inconsistencies in national regulations led to confusion and differing interpretations of the law. The workshop was attended by Foundation partners, including B-Trust and OSS Center of PUPUK Surabaya, as well as government officials and procurement center staff from Kota Surabaya, Kota Cimahi, Kota Parepare, Banjar Baru, and West Java Province. Participants produced a set of recommendations for the newly-established National Procurement Policy Office (NPPO). The group discussed all procurement regulations and inconsistencies, and drafted detailed recommendations for changes to existing regulations on procurement.

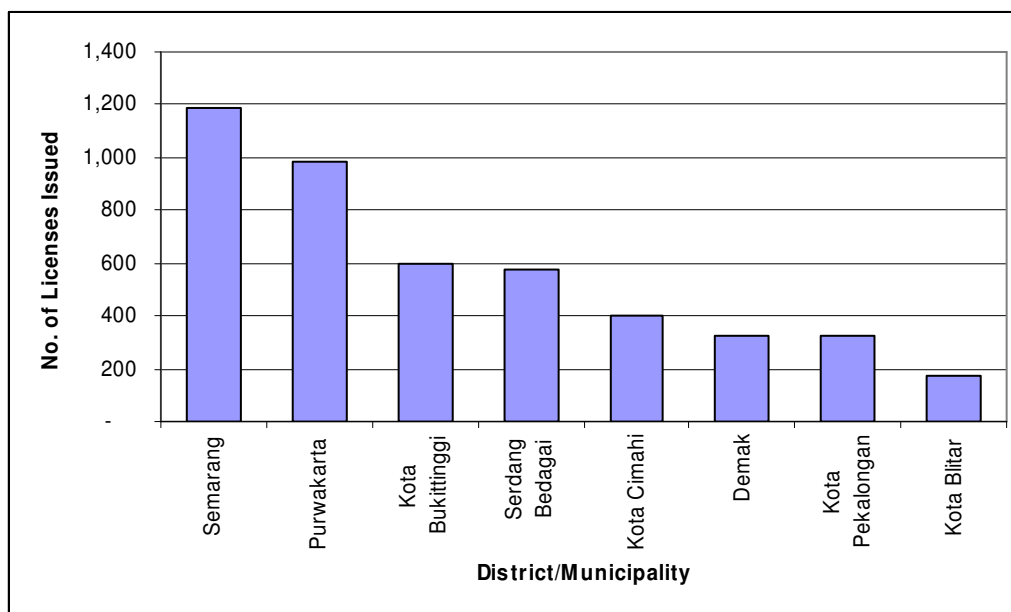
3. Mass Licensing

Mass licensing events enabled local governments to promote their improved public services, at the same time as allowing business owners to obtain the required trade and business registration licenses quickly and easily. In addition to licensing services, entrepreneurs are also able to access information on tax registration and general advice on business development. Bank representatives are also on hand with information on how to access credit.

Mass licensing events were simultaneously carried out in 18 districts/municipalities throughout Indonesia on April 1, 2008, issuing 4,566 licenses¹⁵ in the eight PROMIS districts (Serdang Bedagai, Kota Bukittinggi, Purwakarta, Kota Cimahi, Kota Pekalongan, Semarang, Demak, and Kota Blitar). This groundbreaking event was officially launched in Cimahi by the Director General for Domestic Trade of the Ministry of Trade, Ardiansyah Parman.

The event received extensive press coverage (including a special feature on Metro TV), and positive comments from the Minister of Trade. The level of success of mass licensing indicates the genuine need for simple, easy licensing processes in this country.

Figure 18. Numbers of Licenses Obtained Through Mass Licensing



¹⁵ This figure only covers the issuance of three major licenses: the business registration (TDP), trading permit (SIUP) and nuisance permit (HO).

V. Institutionalizing Regulatory Impact Assessment (RIA) in Local Policymaking

A. Background of the Component

Since decentralization in 2001, local governments have been given greater authority to issue laws and regulations. This has resulted in an explosion of local lawmaking, with many policies that create onerous fees to generate short-term revenue without due consideration for the impact on economic growth. Indeed, some of these local regulations are illegal and create significant distortions in the local economy.

To address this problem, the Foundation worked with 20 local governments, in addition to the Ministry of Trade (MOT) at the national level, to introduce the Regulatory Impact Assessment (RIA) method (see **Annexes 1** and **3** for details of the locations of RIA programming). RIA is a policy analysis tool that is carried out routinely in many countries to ensure that the costs and benefits of regulations are clear to decision-makers, and to ensure that business communities and other relevant stakeholders are consulted during the process of policy making.

B. Component Results Framework

The main objective of this component was to improve the formulation of business regulations. The results framework for this component is indicated in **Table 16**.

Table 16. Output and Outcome Indicators of the Institutionalizing RIA in Local Policymaking Component

Output Indicators	Outcome Indicators
1. At least 15 local governments have capacity to conduct RIA on regulations related to business licensing, taxation or levies, or other economic issues.	Number and quality of the RIA reports, the number of recommendations adopted, and the impact on the number of distortive regulations identified through the business environment ranking.
2. RIA is adopted as a policy tool to formulate and review proposed regulations from the central government. At least six RIAs conducted on proposed regulations from the central government (Ministry of Industry or Ministry of Trade).	Number and quality of RIA reports, and the number of recommendations adopted.

C. Technical Assistance Approach

The Foundation's approach for this component was to strengthen the analytical capacity of local policy makers, while simultaneously involving business and community stakeholders in a more transparent policy-making process. Through a better understanding of regulatory impact, governments and their constituents were able to create a business climate energized by good governance and economic growth.

RIA is a policy analysis tool that has six steps that enable governments to articulate the problem, identify the objectives of policy action, articulate a range of policy alternatives, analyze the costs and benefits of potential regulations and identify whether there are any better alternative solutions to regulation (see **Figure 19**). By using the RIA tool in consultation with stakeholders, policy makers are able to select the best policy alternative.

The first step of technical assistance (TA) focused on building the commitment of local government. Each government signed a Memorandum of Understanding (MOU) to demonstrate its commitment to the program. This was followed by the issuance of a regent or mayoral decree that established a RIA technical team that included government officials, academics, NGOs and business owners. The RIA team, supported by the Foundation's partner, was trained in regulatory policy and economics. The team mapped local regulations (*perda*) and identified at least two of the most important and problematic regulations affecting businesses. Each regulation was reviewed using the RIA tool. The findings were issued in the form of a RIA Statement (RIAS).



Figure 19. The RIA Process

D. Partners Engaged

Technical assistance was implemented in close collaboration with local non-governmental organization (NGO) partners. The Foundation undertook a rigorous process to select and train NGO partners to provide TA for RIA. Intensive monitoring and technical support was provided by the Foundation, particularly during the stage of implementing reforms.

The Foundation engaged with 7 local NGO partners to deliver TA for this component (see **Table 17**).

Table 17. PROMIS RIA Partners and Coverage

No	Partner	Location	Provinces	Start Date	End Date
1	<i>Perkumpulan Untuk Penguatan Usaha Kecil (PUPUK)</i> Surabaya	<ul style="list-style-type: none"> • Pasuruan • Kota Blitar • Sidoarjo • Madiun 	East Java	Apr 2007 Apr 2007 Jul 2005 Sep 2006	Feb 2008 Feb 2008 Jul 2006 Aug 2007
2	Intercafe IPB	<ul style="list-style-type: none"> • Cirebon • Purwakarta 	West Java	Nov 2005 Nov 2005	Jan 2007 Jan 2007
3	<i>Daya Prosumen Mandiri (DPM)</i> Yogyakarta	<ul style="list-style-type: none"> • Bantul • Kulonprogo • Gunungkidul • Kendal • Kota Pekalongan • Demak 	Central Java and Yogyakarta	May 2007 May 2007 May 2007 May 2006 May 2006 May 2006	Feb 2008 Feb 2008 Feb 2008 Mar 2007 Mar 2007 Mar 2007

No	Partner	Location	Provinces	Start Date	End Date
4	Center for Micro and Small Enterprise Dynamic (CEMSED) UKSW Salatiga	<ul style="list-style-type: none"> Banjarnegara Grobogan Kota Salatiga Semarang 	Central Java	July 2007 May 2006 May 2006 May 2006	Feb 2008 Apr 2007 Apr 2007 Apr 2007
5	Bandung Trust Advisory Group (B-Trust), Bandung	<ul style="list-style-type: none"> Indramayu 	West Java	Aug. 2007	Mar 2008
6	Pusat Kajian Sosial, Budaya, dan Ekonomi (PKSBE) - Universitas Negeri Padang	<ul style="list-style-type: none"> Solok 	West Sumatra	Apr 2007	Feb 2008
7	Perkumpulan untuk Kajian dan Pengembangan Ekonomi Kerakyatan (PKPEK) Yogyakarta	<ul style="list-style-type: none"> Sragen 	Yogyakarta	Sep 2005	Dec 2006

E. Results of the Component

Summary of Achievements of Deliverable 1

Table 18. Summary of Achievements of Deliverable 1 of the Institutionalizing RIA in Local Policymaking Component

Targets	Achievements
<i>Outputs:</i> At least 15 local governments (LGs) have capacity to conduct RIA on regulations related to business licensing, taxation or levies or other economic issues.	<ul style="list-style-type: none"> 20 LGs in 5 provinces received TA on RIA. 41 existing local regulations (<i>perda</i>) related to business licensing and permitting were reviewed by RIA teams established in all districts. 284 local government officials, business owners and NGO representatives received RIA training.
<i>Outcomes:</i> The number and quality of the RIA reports, the number of recommendations adopted, and impact on the number of distortive regulations identified through the business environment ranking.	<ul style="list-style-type: none"> 41 RIA Statements (RIAS) were issued. 37 draft revised local regulations (<i>perda</i>) were formulated, 19 of which were submitted to local parliaments (DPRDs). 1 draft revised regent decree was formulated. 7 <i>perda</i> were passed by 4 local parliaments. 4 LGs continued utilizing RIA teams to review other existing <i>perda</i>. 1 LG issued a regent decree requiring utilization of RIA in the local policy making process. 1 local NGO partner used RIA to assist LGs outside PROMIS sites.

Outputs of Deliverable 1

The Foundation provided technical assistance on RIA to 20 Local Governments (LGs) in 5 provinces (West Sumatra, West Java, Central Java, DI Yogyakarta and East Java). Each participating LG established a RIA Team that was responsible for reviewing at least two regulations, with the exception of Semarang and Sragen, which reviewed three regulations, and Sidoarjo, which reviewed only one regulation. A total of 41 existing local regulations were reviewed utilizing the RIA tool, with assistance from the Foundation and its partners.

Most of the RIA Teams reviewed regulations related to licensing and permitting, such as:¹⁶

- Nuisance permits (HO/SITU) were reviewed in 14 districts/municipalities (70% of all RIA sites), which included Solok in West Sumatra, Banjarnegara, Demak, Grobogan, Kota Pekalongan, Kota Salatiga, Kota Semarang, Semarang, Sragen, and Kendal in Central Java, Bantul, Gunungkidul and Kulonprogo in DI Yogyakarta, and Sidoarjo in East Java. The high percentage of LGs reviewing HO/SITU indicated the importance and urgency of revising regulations in this area. The Foundation later compiled the findings from these LGs and advocated for issuance of a national level regulation on the nuisance permit that addresses issues raised.¹⁷ The recommendations included incorporating nuisance aspects in an environmental assessment, reducing the number of indicators for determining the amount of the local tax, and shortening procedures for SMEs with little nuisance impact.
- Construction permits (IMB) were reviewed in 8 districts/municipalities, including Solok, Semarang, Demak, Grobogan, Kota Salatiga, Kota Semarang, Bantul and Kulonprogo. In general, RIA teams proposed to simplify the procedures and requirements for construction permits.
- Trading permits (SIUP) were reviewed in 4 districts/municipalities, including Purwakarta (West Java), Kendal, Semarang (Central Java), and Kota Blitar (East Java). Most small firms perceived that the procedures required to obtain trade permits were too complex. RIA teams in each site proposed revisions to existing local regulations to allow firms, particularly of small scale, to obtain trade permits for free.
- Trade and industry-related regulations were reviewed in 2 districts, Madiun and Pasuruan (East Java). The regulations stipulate conditions to apply for company registration license (TDP/WDP) and trading permits (SIUP) for all type of firms, including possession of nuisance permit. RIA teams in these districts proposed exemptions from nuisance permit requirements for small firms. They also recommended allowing small firms to apply for construction permits, trading/industrial permits and firm registration permits simultaneously.

To build local capacity, the Foundation and its partners conducted 39 training sessions on RIA. Two RIA trainings were provided in each site, except in Sidoarjo where the training was conducted only once. The first RIA training covered the first three steps of RIA: identification of problems, formulation of the objectives, and identification of policy alternatives. The second RIA training focused on undertaking a cost-benefit analysis and public consultation, and formulating

¹⁶ This section presents information that was previously presented under Deliverable 1.2 of Component 1, which reported on the RIA work relevant to business licensing that took place in OSS sites (please see Table 9 for details). As already noted, 12 districts received both OSS and RIA assistance.

¹⁷ Again, please refer to previous discussion of work in the area of advocacy for nuisance permit legislation reform under Deliverable 3.2 of Component 1 of the program.

an implementation strategy. In total, 284 participants were trained, including 227 government officials, 22 private sector representatives and 35 NGO representatives.

Outcomes of Deliverable 1

The RIA teams in 20 districts/municipalities were successful in formulating 41 Regulatory Impact Assessment Statements (RIAS). Thirty-seven RIA Statements were transformed into draft local regulations (*perda*) and one RIAS was used to prepare a Regent Decree in Madiun. The RIA teams in Solok, Indramayu, Banjarnegara, Kendal, Kota Pekalongan, Bantul, Gunungkidul, Kulonprogo, Madiun and Kota Blitar submitted as many as 19 draft *perda* to local parliaments (DPRD).

Local parliaments in several sites reported that the RIA Statements were helpful to them in reviewing the proposed regulations, because the assessment employed both analytical and participatory processes. By the end of the program, 7 *perda* were passed. These included regulations on: nuisance permits in Solok, Kendal, and Kota Pekalongan; construction permits in Solok; advertisement permit taxes in Kota Pekalongan; and trading permits and street vendors in Kota Blitar. It is expected that most of the remaining draft *perda*, particular those submitted to the DPRD in Kendal, Bantul, Gunungkidul and Kulonprogo, will be approved and enacted in 2009.

"RIA is a breakthrough for us, members of parliament ... RIA can be used as an analytical tool to discuss the economic regulations proposed by our executive counterpart"

Mardial Basyir, RIA Team member and local Parliamentarian, Solok

"I fully support using the RIA tool, as it can contribute to improving the local business climate ... However, during its implementation, regular coordination between the executive and legislative branches is necessary."

Suprpto, Head of Trade and Economics Commission, local parliament of Madiun

Adoption of the RIA process in the District of Solok through the Issuance of Regent Decree No. 17/2008

Article 8 point (1): *The step-by-step impact analysis procedures which are mentioned in Article 6 point (2) should be written in a standardized reporting format called a Regulatory Impact Assessment Statement (RIAS).*

Article 8 point (2): *The RIA Statement, as mentioned in point (1), should be attached to the draft local regulation proposed to the DPRD.*

Furthermore, 4 LGs (Solok, Purwakarta, Banjarnegara and Bantul) continued utilizing the RIA teams to review additional local regulations. For example, the government of Bantul required the RIA Team to employ the RIA method to review 29 draft *perda* in line to be issued in 2009. The LG of Solok even issued a Regent Decree requiring RIA to be used in all local policy making processes.

One of the Foundation's local NGO partners, CEMSED, helped non-PROMIS LGs in Central Java conduct RIA analysis, with funding provided by individual governments' budgets. CEMSED assisted the LG of Magelang to review a draft regulation on street vendors, which was passed in 2008. In Purbalingga, they utilized RIA to review 2 draft *perda*, on public transport route permits and on labor issues. Both regulations were issued in 2008. CEMSED also provided a short training session on RIA to the LG of Wonosobo.

Figure 20. This poster encourages public participation in *Perda* formulation in Kota Pekalongan

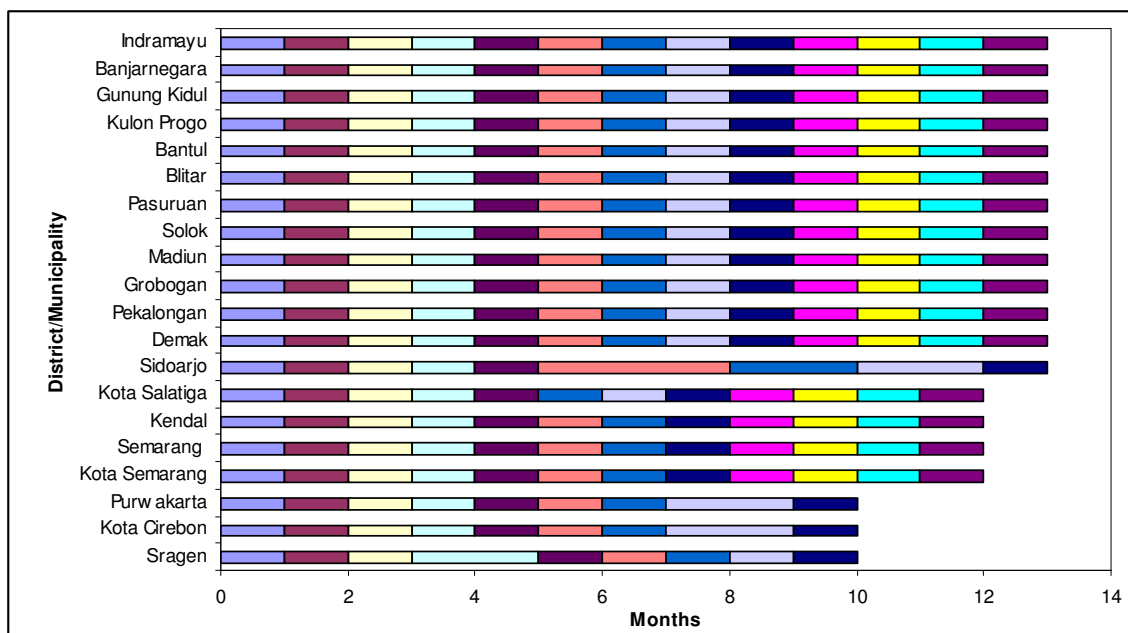


Process Indicators of Deliverable 1

- (m) **Time to Achieve Benchmarks.** Technical assistance for RIA commenced in 2005 in four districts: Sidoarjo, Sragen, Cirebon and Purwakarta. The second batch of districts – Grobogan, Semarang, Kota Salatiga, Demak, Kendal, Kota Pekalongan, Kota Semarang and Madiun – began receiving TA in 2006. The last batch of districts, which included Solok, Pasuruan, Blitar, Bantul, Gunungkidul, Kulonprogo, Banjarnegara and Indramayu, received technical assistance beginning in 2007.

The RIA TA process was measured using 13 benchmarks that defined progress toward the target of drafting RIA statements.¹⁸ As shown in **Figure 21**, the average time required for districts to achieve all 13 benchmarks was 12.8 months.¹⁹

Figure 21. Progress of RIA Implementation



- (n) **Participation in RIA Activities.** As shown in **Figures 22** and **23** below, participants in RIA activities, including trainings, workshops and public consultations, were primarily male government officials. While the number of private sector participants steadily increased from quarter 2 of 2007 onwards, female participation remained at around 20 percent. The total number of participants grew significantly beginning in quarter 3 of 2007 due to the increasing number of participating districts.

¹⁸ The benchmarks are: (1) Partner assessment of government completed; (2) MOU signed by Regent/ Mayor (with timetable and expectations); (3) Team formation decree (SK passed, with team member list and team leader); (4) Perda mapping report completed; (5) Cycle I – RIA process plan submitted (including business consultation); (6) Cycle I – Step 1-3 RIAS Draft submitted to TAF; (7) Cycle I – Step 4 RIAS Draft submitted to TAF; (8) Cycle I – Final RIAS submitted to TAF, publish the final RIAS; (9) Cycle II – RIA process plan submitted (including business consultation); (10) Cycle II – Step 1-3 RIAS Draft submitted to TAF; (11) Cycle II – Step 4-5 Draft submitted to TAF; (12) Cycle II – RIAS submitted to TAF (with draft revision on local regulation); (13) Feedback meeting on Second Cycle completed.

¹⁹ As seen in Figure 18, Sidoarjo, Cirebon, Purwakarta and Sragen completed 9 benchmarks only since they were reviewing two regulations in parallel, while the remaining districts completed the program with 13 benchmarks since they were reviewing two regulations sequentially. The average was calculated based on the data from 16 other districts.

Figure 22. Participation in RIA activities by Gender

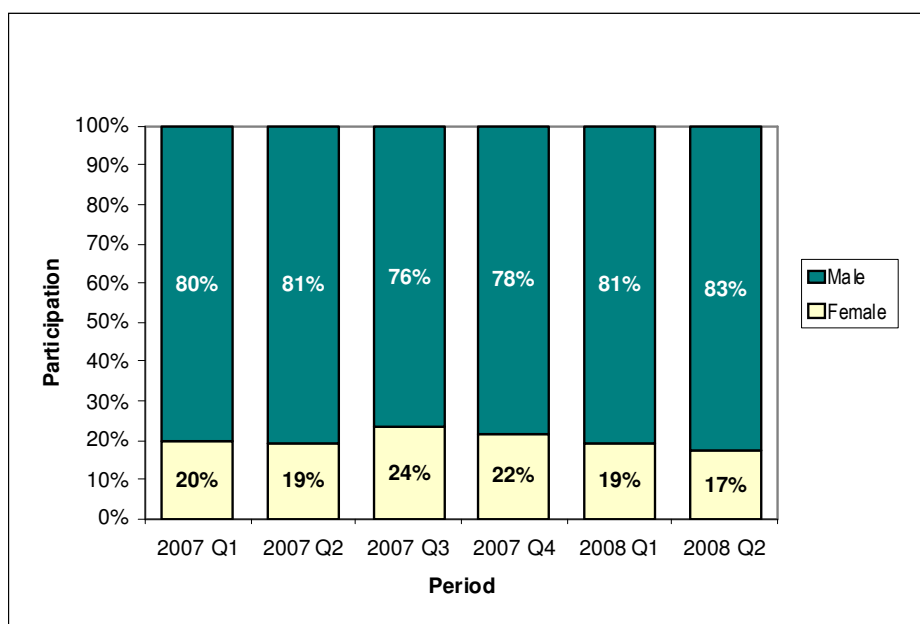
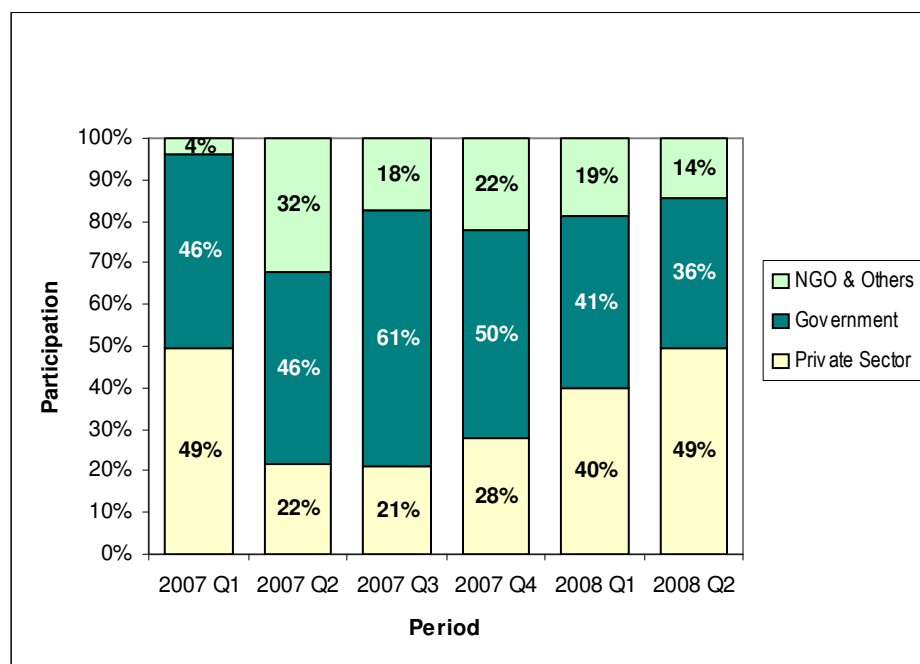


Figure 23. Participation in RIA activities by Profession



Summary of Achievements of Deliverable 2

Table 19. Summary of Achievements of Deliverable 2 of the Institutionalizing RIA in Local Policymaking Component

Targets	Achievements
<i>Outputs:</i> RIA adopted as a policy tool to formulate and review proposed regulations from the central government. At least six RIAs conducted on proposed regulations made by the central government (Ministry of Industry or Ministry of Trade).	<ul style="list-style-type: none"> RIA TA provided to the Ministry of Trade (MOT) to review regulations related to rattan and cocoa.
<i>Outcomes:</i> Number and quality of the RIA reports, and the number of recommendations adopted.	<ul style="list-style-type: none"> A new Indonesian National Standard (SNI) on cocoa quality is being developed by the Ministry of Agriculture, based on RIA recommendations A revised regulation on the rattan industry is being formulated in the Ministry of Trade

Outputs of Deliverable 2

The Foundation, with the support of international and national RIA experts, helped the Ministry of Trade (MOT) to form a RIA team to analyze regulations on two agricultural commodities important to Indonesia, rattan and cocoa. The Asia Foundation worked very closely with the RIA team at the Ministry, attending weekly review meetings throughout the 25-week RIA review process. The RIA team completed the RIA process and presented the findings to other MOT officials in January 2007. This was followed by a training of trainers (TOT) for a group of 12 MOT staff.

The RIA statement on cocoa put forward a policy suggestion for the Ministry to raise the export standard of cocoa beans. The statement proposed to raise the standard of cocoa quality and develop a higher Indonesian National Standard (*Standar Nasional Indonesia – SNI*). This standard would require farmers to improve their cocoa trees and to introduce the process of fermentation into the cocoa production process. This will improve the Indonesia cocoa productivity from 0.6 ton/ha/year to 1.5-2 ton/ha/year. The quality will also lead to increased price of cocoa.

The RIA of regulations on rattan also put forward a series of policy recommendations through a RIA Statement. These included reducing export tariffs on raw and semi-processed rattans, expanding exportable types of raw rattan, and revoking governor decrees in Sulawesi that prohibit the inter-island trade of rattan. This policy reform is expected to increase rattan export, which was declining by 15%.

Bisnis Indonesia, 05 Desember 2006

Wajib SNI kakao bakal dongkrak harga				
<p>Perkembangan produksi, ekspor dan impor kakao nasional (ton)</p>				
	Produksi	Ekspor	Impor	
2001	536.854	302.619	25.617	
2002	671.185	358.690	23.262	
2003	572.640	363.632	23.691	
2004	601.272	276.485	31.083	
2005	663.203	367.426	30.292	

Outcomes of Deliverable 2

The RIA team's policy recommendations on cocoa and rattan are currently being adopted by the national government. The recommendation to upgrade the Indonesian national standard (SNI) of cocoa was adopted by the Ministry of Agriculture (MOA), which is now finalizing a new draft regulation on the SNI. A team within the MOT is in the process of revising a regulation on rattan based on inputs made by the RIA team. The proposed regulations on cocoa and rattan should have a positive impact on internal trade, improve the quality of exported cocoa and rattan, and increase the income of farmers.

After receiving training from The Asia Foundation, the Ministry of Trade's Research and Development Agency has continued to use the RIA methodology to conduct a thorough regulatory review on key trade policies. The agency implemented reforms to the business regulation and licensing system in two stages, in December 2005 and March 2006. The team reviewed 77 regulations in the following categories: domestic trade regulations, export and import regulations, bonded zone regulations, and regional trade regulations. They analyzed 13 regulations in further detail and prepared recommendations to simplify or repeal each regulation, or to transfer the licensing authority to other institutions.

F. Case Study: RIA in Kota Blitar

With PROMIS support, the government of Kota Blitar analyzed two local regulations using the RIA method. They focused on regulations related to street vendors and local trading permits (SIUP).

The Asia Foundation, through its partner PUPUK Surabaya, helped the municipal government of Blitar to implement RIA step by step. The process began with a series of workshops to introduce RIA to local government officials, Parliamentarians, and members of business associations. Next, the RIA team was established and trained. PUPUK Surabaya also facilitated a series of training sessions on legal drafting to equip team members with the skills needed to formulate local regulations.

Within 11 months, the RIA Team in Kota Blitar was able to revise the following regulations:

- (i) Local Regulation No. 13/1989 on Street Vendors. The permitting process for street vendors was simplified so that street vendors could formalize their business with a minimum of requirements and without paying any fees. Licensed vendors are allowed to do business in the designated public areas without any risk of eviction.
- (ii) Local Regulation No. 10/2004 on Trade Permits (SIUP). Revisions to the trade permitting process included a reduction in the number of requirements (from 9 to 8), reduction in processing time (from 12 days to 3 days) and an extension of the permit renewal period (from every 2 years to every 5 years.). The permit fee of IDR 100,000 was abolished.



Public consultation workshops were conducted eight times in Kota Blitar. Workshops invited participation from members of street vendor associations and SME associations, Chamber of

Commerce officials, and representatives from local banks. Local government agencies were also represented, including the Departments of Trade and Industry and Public Works, the local



Figure 26. A public consultation in Blitar

Cooperatives Agency and the local tax office. To close the public consultation series, a 60-minute interactive talk show was broadcast on a local radio station, Mayangkara FM.

The RIA Team also presented the results of their analysis and the draft revised local regulations to the local parliament during a two-day dissemination seminar. The seminar was successful in getting buy-in from local legislators, and assisted them understand the findings of the RIA analysis. As a result, the local parliament approved the revised regulations within a few months. On July 28, 2008, *Local Regulation No. 10/2008 on Street Vendors* and *Local Regulation No. 11/2008 on Trade Permits* were officially passed by

the local parliament.

G. Additional Activities

Workshops on Accelerating Economic Regulatory Reform

To complement the Foundation's overall program on improving Indonesia's investment climate and, in particular, the regulatory environment, the Foundation collaborated with the Government of Indonesia (Coordinating Ministry of Economic Affairs), the World Bank and the Center for Strategic and International Studies (CSIS) to highlight key policy issues via national and international workshops.

In May 2006, the Foundation co-organized a national workshop on the sub-national investment climate, which brought together key policy-makers from the regional and national levels to discuss important impediments to improving the local investment climate.

In April 2007, the Foundation also co-organized an international workshop on accelerating economic regulatory reform. The workshop was aimed at raising important issues related to regulatory reform in Indonesia and finding appropriate tools for reform. The workshop brought together best reform practices both from Indonesia (Yogyakarta and Parepare) and best reform practices from other countries (China, the Netherlands, Korea, and Vietnam). All participants agreed that regulatory reform in Indonesia should focus on the quality of regulations, rather than simple deregulation.

A number of recommendations for the government of Indonesia were also raised at the international workshop. These included the need to establish: 1) an inventory of regulations, 2) a public-private working group to promote regulatory reforms, and 3) an independent unit within the government to monitor the quality of regulations. Participants also recommended introducing a variety of policy reform tools that have worked in other developing countries. Apart from the discussions of existing tools such as the RIA methodology, the international workshop also introduced the use of another reform tool, called the "regulatory guillotine." This particular method is useful for reviewing and repealing a large number of existing regulations.

VI. Rating of Local Business Environment Attractiveness

A. Background of the Component

Since decentralized governance was introduced in 2001, local governments have had a mixed performance record as related to local economic development. Some have increasingly focused their attention on policies and investments to drive economic development, while others have persisted with old ways of thinking, imposing more burdensome regulations on businesses. The Asia Foundation had supported KPPOD's (Regional Autonomy Watch) work in rating the business climates of districts and municipalities across Indonesia since 2002. Prior to PROMIS, USAID and The Asia Foundation supported the KPPOD to carry out three annual Local Economic Governance surveys through the *Partnership for Enterprise Policy Reform* (PEPR) program between 2002 and 2004. They covered 134, 200 and 214 districts in 2002, 2003 and 2004, respectively. KPPOD uses perception data from local businesses and government statistics to create an index of regional business attractiveness.

B. Component Results Framework

The main objective of the Rating of Local Business Environment Attractiveness component was to create strong incentives for local governments to implement business-friendly policies. The results framework of this component is indicated in **Table 20**.

Table 20. Output and Outcome Indicators for the Rating of Local Government Competitiveness Component

Output Indicators	Outcome Indicators
1. Annual rankings of local business environments undertaken and disseminated in 2005 and 2006	Extent of media coverage (number of stories) and the number of local governments requesting technical assistance to improve their ranking.
2. Annual ranking for 2007 compiled.	Amount of cost share raised provided by local governments towards the expense of technical assistance and the number of local governments requesting technical assistance to improve their ranking

C. Approach and Methodology

Beginning in 1999, the Asia Foundation and KPPOD, with USAID support, developed a ranking exercise to gauge how decentralization was impacting the local business climate. The Local Economic Governance survey developed by KPPOD was the first of its kind in Indonesia, and has been the largest business climate survey undertaken in the country. The aim was to create an advocacy tool that could be used to promote healthy regional business climate competition and to encourage local governments to improve their performance.

The methodology of the surveys employed a set of factors/sub-indices and variables that are considered determinants of the regional investment climate. Data was collected using perception-based surveys taken from selected firms at district level. The methodology also used some

available hard data, including local regulations. There were significant differences between the specific approaches and methodologies used in the 2005 survey and those employed in the 2007 survey, as detailed below:

Table 21. Differences in Methodology of Local Economic Governance Surveys in 2005 and 2007

Description	2005	2007
Methodology	<ul style="list-style-type: none"> • 47 indicators that compose determinant variables • 14 determinant variables that compose factors • 5 factors that determine the Investment Competitiveness 	<ul style="list-style-type: none"> • 46 variables that compose sub-indices • 9 sub indices that compose the final Economic Governance Index
Variables	<ul style="list-style-type: none"> • Institutional Factors: legal certainty, apparatus and services, local government policies, local leadership • Security, Political, Socio-cultural Factors: security, politics, socio-cultural concerns • Local Economic Factors: economic potential, economic structure • Labor Factors: availability of labor, quality of labor, labor costs • Physical Infrastructure Factors: availability of physical infrastructure, quality of physical infrastructure 	<ul style="list-style-type: none"> • Land Access and Security of Tenure (4 variables) • Business Licensing (6 variables) • Local Government and Business Interaction (8 variables) • Business Development Programs (4 variables) • Capacity and Integrity of the Mayor/Regent (6 variables) • Local Taxes, User Charges and other Transaction Costs (6 variables) • Local Infrastructure (5 variables) • Security and Conflict Resolution (4 variables) • Local Regulations (3 variables)
Focus	Combination of governance aspects and endowment variables ²⁰	Governance aspects only. Endowment variables are excluded from the analytical focus
Coverage	228 districts in 30 provinces. Only a sample of districts was covered in each province.	243 districts in 15 provinces, with full coverage of all districts in 15 provinces.
Sampling Frame	Lists of all companies registered in each region	BPS Economic Census 2006
# of Respondents	8,727 firms selected using a systematic random sampling method	12,187 firms and 697 business associations
Parameters	The Analytical Hierarchy Process (AHP) approach was used to determine weighting of all indicators, variables and factors, based on the experts' judgments.	Equal weighting for variables composing sub-indices Weighting for each sub-index based on firm's perception of the most burdensome constraint to their business

²⁰ Endowment variables are given/innate capacities/factors that can be either positively and negatively influence the state of other variable or superior factor. This includes, among others, economic potential (natural resources), availability and quality of labor, availability and quality of physical infrastructure.

D. Partners Engaged

The Foundation rated local business environment attractiveness together with its local partner, KPPOD. This NGO is a public policy research organization was established in 2001 by a group of leading Indonesian economists, in collaboration with the Indonesian Chamber of Commerce (KADIN), and focuses on monitoring the implementation of regional autonomy in Indonesia. KPPOD's vision is to improve the welfare of the Indonesian people by stimulating the creation of an investment-friendly business climate throughout the country. Both Local Economic Governance survey reports produced under PROMIS we co-authored by the KPPOD and the Foundation.

In 2007, the Foundation contracted a private survey research firm, the Indonesia office of Nielsen, to assist the KPPOD to collect survey data. Nielsen helped finalize the sampling frame and interview questions, trained local enumerators, and collected primary and secondary data.

E. Results of the Component

Summary of Achievements of Deliverable 1

**Table 22. Summary of Achievements of Deliverable 1 of
Rating of Local Business Environment Attractiveness Component**

Targets	Achievements
<i>Outputs:</i> Annual rankings of local business environments undertaken and disseminated in 2005 and 2006	<ul style="list-style-type: none"> Survey of investment competitiveness undertaken in 228 districts in 2005, and findings disseminated.
<i>Outcomes:</i> Extent of media coverage (number of stories), and the number of local governments requesting technical assistance to improve their ranking.	<ul style="list-style-type: none"> The launch of the findings report was the subject of 7 national news articles on June 13, 2006, including stories in <i>The Jakarta Post</i>, <i>Kompas</i>, <i>Investor Daily</i> and <i>Bisnis Indonesia</i>.

Outputs of Deliverable 1

The 2005 and 2007 Local Economic Governance surveys were supported by the PROMIS program. In 2006, no data was collected because the survey methodology was being revised. Therefore, no report was produced in that year.

For the 2005 survey, data was collected by the KPPOD, which mobilized 556 enumerators and 50 supervisors to collect data from 30 provinces in Indonesia (all provinces except Aceh, Maluku and Maluku Utara). However, only 51% of the districts in the provinces were sampled by the survey. In addition to primary data collection, the survey also reviewed 1,379 local regulations issued by the 228 local governments.

The overall results of the 2005 survey suggested that government corruption and lack of transparency were major problems for businesses of all sizes. Some of the worst-recorded scores related to the lack of transparency and corruption in local procurement processes. Moreover, indicators related to transparency of information on tenders, fairness of decision making and illegal side payments recorded some of the lowest averages in the survey.

The survey also indicated that security, political and socio-cultural factors were the main contributors to regional investment climate competitiveness (27%). A comparison of investment

competitiveness for this factor shows that districts were slightly more business-friendly than municipalities. The latter tends to have more complicated politics, as well as more frequent rallies that disrupt commerce and threaten security. For this factor, 7 of 9 districts in Bali received the highest scores, with Denpasar, the capital of Bali, ranking as the most secure district in Indonesia.

With regards to business licensing, according to survey results, a majority of business owners applied directly for licenses/permits for their businesses. However, the percentage of the business owners applying for licenses through unofficial channels was high – with 7% of respondents saying they applied through agents or middlemen, and 12% applying through local government officials. The problems business operators faced in securing business permits from the local government generally related to clarity of procedures, certainty about fees, and certainty about the time required. Only 15% of respondents said that they had used OSS services to obtain a business license.

With weights applied to variables and factors, KPPOD found that the average index of investment climate competitiveness across regions in Indonesia was till far from perfect and only scored 6.06 out of 9. This implied that all districts in Indonesia still have room to improve their investment competitiveness. **Table 23** shows the best- and worst-performing districts of those surveyed.

Table 23. Ten Highest and Lowest Rated Regions, for All Factors (Overall Rating)

Highest Ratings			
Municipalities		Districts	
1. Batam	6. Tangerang	1. Gianyar	6. Sawahlunto Sijunjung
2. Cilegon	7. Bandar Lampung	2. Klungkung	7. Pasir
3. Padang	8. Sibolga	3. Musi Banyuasin	8. Sidoarjo
4. Balikpapan	9. Sawahlunto	4. Kolaka	9. Bulungan
5. Denpasar	10. Cirebon	5. Kutai Kertanegara	10. Purwakarta
Lowest Ratings			
Municipalities		Districts	
50. Bogor	55. Palangkaraya	160. Tanjung Jabung Timur	165. Bondowoso
51. Bengkulu	56. Madiun	161. Lamongan	166. Pamekasan
52. Banjar	57. Pekalongan	162. Muna	167. Sumba Barat
53. Bekasi	58. Tanjung Balai	163. Wonosobo	168. Jayawijaya
54. Palu	59. Sorong	164. Rokan Hulu	169. Buton

The 2005 Local Economic Governance survey report, entitled *Investment Competitiveness of Regencies/Cities in Indonesia, 2005: Perceptions of the Business Community*, was launched in June 2006 in Jakarta. The event was officially opened by the Coordinating Minister for Economic Affairs, Mr. Boediono. Furthermore, in July and August 2006, the KPPOD disseminated survey results through a series of half-day dissemination workshops in Sangata in East Kalimantan, Kota Barru in South Sulawesi, Kota Larantuka in East Nusa Tenggara, Kendari in Southeast Sulawesi, and Banyumas in Central Java.

Outcomes of Deliverable 1

The 2005 survey attracted widespread attention from policy makers, investors, the media, and donors. Launched in 2006 in Jakarta, the survey report was the subject of 7 news articles appearing on June 13, 2006 in national newspapers that included *The Jakarta Post*, *Kompas*, *Investor Daily* and *Bisnis Indonesia*.

Overall, the results of the 2005 survey indicated the need to continue to the need to improve the business climates in order to promote the establishment of new businesses and work opportunities, particularly in the outer regions of Indonesia. The results also indicated that promotion of new business would lead to increased local government tax revenues, better enabling government to finance public services such as education, healthcare, and transportation.

More specifically, the Coordinating Minister for Economic Affairs asked his staff to draw on the study for policy inputs and has repeatedly referred to it positively in media reports. The government has used KPPOD survey results to list poor local regulations that should be repealed. The following are outcomes that resulted from the 2005 survey:

- The findings in the category of “local regulations” motivated the revision of Law No 34/2000 on Regional User Charges and Taxes.
- KPPOD helped draft a module on the regional economy as part of a State Administration Agency task force.
- KPPOD served as a member of the Central Java Investment Rewards jury in 2006-2008, which rewarded districts in Central Java that had pro-investment initiatives.
- KPPOD also served as a member of the jury for Investment Awards made by the Council for Regional Representatives (DPD) in 2007.
- The National Investment Coordinating Board (BKPM) requested KPPOD’s assistance with nominating the 10 best OSS. This was followed up by KPPOD awarding the Best Provinces for Investment (2008).
- The Directorate for Development of the Regional Economy within the Ministry of Home Affairs, in coordination with the National Development Planning Agency and the Ministry of Finance, requested KPPOD’s inputs while drafting a government regulation related to regional economic performance.

Summary of Achievements of Deliverable 2

**Table 24. Summary of Achievements of Deliverable 2 for
Rating of Local Business Environment Attractiveness Component**

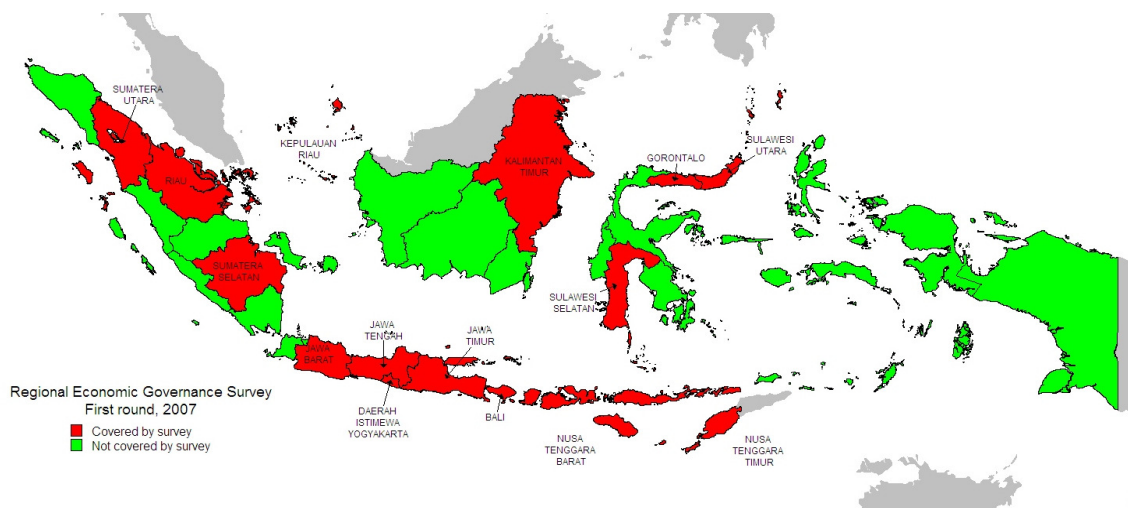
Targets	Achievements
<i>Outputs:</i> Annual ranking for 2007 compiled.	<ul style="list-style-type: none"> • Survey of Local Economic Governance 2007 in 243 districts in 15 provinces was undertaken and disseminated.
<i>Outcomes:</i> Amount of cost share raised and the number of local governments requesting technical assistance to improve their ranking.	<ul style="list-style-type: none"> • Results requested by national ministries; incorporated into short and medium-term development plan • Dissemination included focus group discussions in 4 sites. • The number of local governments requesting TA to improve their ranking and their cost share of TA could not be tracked due to limited time available after the launch of the report.

Outputs of Deliverable 2

Data for the 2007 Local Economic Governance survey was conducted in 2007-2008, and covered all 243 districts/municipalities in 15 provinces: North Sumatra, Riau, Riau Islands, South Sumatra, West Java, Central Java, East Java, DI Yogyakarta, East Kalimantan, Bali, NTT, NTB, North Sulawesi, Gorontalo, and South Sulawesi (see map below). The Foundation contracted a survey research firm, Nielsen, to finalize the methodology, train enumerators, and collect all primary and secondary data. Nielsen provided the data to the KPPOD, which analyzed it and co-

authored the publication with the Foundation. KPPOD also led dissemination events, organizing the launch event and awards ceremony held in July 2008, as well as post-launch results workshops and advocacy activities.

Figure 27. Coverage of the 2007 Local Economic Governance Survey



Because of the important link between economic governance and growth, the 2007 survey focused more on economic governance indicators, such as licensing policy and the mayor's capacity to affect change. In the previous survey, endowment factors, such as infrastructure, ensured that municipalities came out ahead, while the 2007 survey highlighted effective local governments regardless of size or wealth. Additionally, the 2007 survey weighted aspects of economic governance according to their perceived level of constraint to local businesses.

The survey results indicate that the main constraints for local firms are infrastructure and access to land. Findings showed that it typically takes a month for a local road to be fixed. Almost two-thirds of large firms have a generator, an indictment of the unreliability of the electricity supply. Nearly half of firms reported that access to land is difficult, and in large municipalities tenure is insecure.

Results also show that good governance is tied to leadership rather than poverty or remoteness. The most dramatic finding from the survey is the enormous diversity of outcomes within provinces. In Lombok Tengah, a district in the province of West Nusa Tenggara, it takes less than five weeks to get a land certificate. In Bima, a district in the same province, it takes more than 27 weeks. These results suggest that good governance is primarily the result of good political leadership rather than favorable financial or natural endowments.

With weights applied to the sub-index scores, the Foundation and KPPOD found the best-performing district for the 2007 survey to be Kota Blitar in East Java (see **Table 25**). Districts in East Java actually dominated the top ranks, taking six of the top-ten places, with the remaining top-performing districts from South Sumatra and Bali. The bottom ten mostly comprised districts of North Sumatra Province. The other poor performing districts were from the provinces of NTB and Riau.

Table 25. Best and Worst Five Districts for the Economic Governance Index 2007

Rank	Region	Province	EGI score
<i>The Best Performing Districts/Municipalities</i>			
1	Kota Blitar ²¹	East Java	76.0
2	Magetan	East Java	75.4
3	Kota Prabumulih	South Sumatra	74.7
4	Musi Banyuasin	South Sumatra	74.3
5	Jembrana	Bali	73.7
<i>The Worst Performing Districts/Municipalities</i>			
239	Rokan Hulu	Riau	47.7
240	Nias	North Sumatra	45.3
241	Rokan Hilir	Riau	45.1
242	Labuhan Batu	North Sumatra	41.8
243	Nias Selatan	North Sumatra	41.4

The 2007 report, titled '*Local Economic Governance in Indonesia: A Survey of Businesses in 243 Regencies/Cities in Indonesia, 2007*', was launched on July 22, 2008 in Jakarta. The launching was officially opened by Minister of Finance, who is committed, in her speech, to follow up the results of the survey. In August and September 2008, KPPOD further disseminated survey results through a series of half-day dissemination workshops in Soppeng (South Sulawesi), Kota Magelang (Central Java), Kota Pematangsiantar (North Sumatra) and Manggarai (East Nusa Tenggara). The purpose of these events was to explore in more detail why some districts performed well on some issues while others performed badly, and to put in place appropriate incentives for districts to learn from each other to improve their performance.



Figure 28. Mayors/Regents honored at the Local Economic Governance Awards Ceremony held in Jakarta on July 22, 2008

Outcomes of Deliverable 2

The 2007 Local Economic Governance Survey report received wider media coverage than the 2005 report. Between July 22-31, 2008 alone, the report was the subject of 42 articles in print and online, including articles in national newspapers such as *The Jakarta Post*, *Kompas*, *Bisnis Indonesia*, *Suara Pembaharuan*, *Kontan*, *Republika* and *Media Indonesia*, and local newspapers such as the *Prabumulih Post*.

²¹ The Foundation, between 2005-2008, through its local partner, PUPUK-Surabaya, provided technical assistance to government of Municipal Government of Blitar to improve their licensing service and regulatory reform process

Figure 29. A Jakarta Post article on the 2007 Local Economic Governance report



The impact that the 2007 survey will have on policy reform will be seen within the coming year. However, a number of government initiatives have already taken survey findings into account. For example, Kota Sukabumi (West Java) held a focus group discussion about their performance in the rankings in order to seek input to improve their performance. The National Development Planning Agency (BAPPENAS), the Coordinating Ministry of the Economy, and the National Investment Coordinating Board (BKPM) requested that KPPOD to present the survey findings in detail. The KPPOD was also asked to propose ideas that could be included in the draft medium-term development plan (RPJM).

F. Additional Activity

The Asia Foundation collaborated with national television station Metro TV to produce a series of advertorials and talk shows emphasizing aspects of the PROMIS program, such as mass licensing and addressing regulatory barriers. For example, as part of the Foundation's media strategy for the KPPOD Local Economic Governance report, the Foundation produced an advertorial for national television. In another instance, the Metro TV-produced national talk show, "Public Corner," featured experts discussing the Foundation's role in developing OSS procurement centers. At the local level, the Foundation also publicized licensing events, RIA results, and procurement centers through local newspapers and radio talk shows. Media outlets have proven to be an effective tool in generating public interest and debate about these important economic reform issues.



Figure 30. "Public Corner" talk show airs on Metro TV

VII. Lessons Learned

1. ***Decentralization has opened up opportunities for reform, but there are still national government policies (or lack of them) that are limiting.*** The decentralization process has provided opportunities for local governments to implement institutional reforms to improve the business environment at the local level. The direct election of mayors and heads of districts since 2005 has improved the situation further by creating downward accountability of the elected officials to their constituents. Nonetheless, experiences under PROMIS have shown that there are still several national government policies that restrict local economic governance reform. *First*, several local governments are still hesitant to fully adopt RIA due to the lack of a national-level regulation that requires them to implement the methodology. *Second*, although this problem was actually overcome for the implementation of the OSS component through the issuance of the Ministry of Home Affairs Decree and OSS Guidelines, the newly issued Government Regulation 41/2007 on the new organizational structure of local governments have made some local governments delay the establishment of OSS. *Third*, several aspects which were considered the most important constraints by the firms surveyed in the 2007 Economic Governance Survey were actually within the authority of the national government. For example, access to land and access to infrastructure (particularly electricity) were considered the most important factors by the business community surveyed.
2. ***The local government's commitment is the key factor for the success of OSS and RIA implementation.*** The Regent or mayor is certainly the most important factor for the successful implementation of OSS and RIA. However, it is important to note that this commitment must also be transferred to the second layer of officials (echelon 2) who lead the technical units of the local governments. For example, OSS establishment means that some local government units lose their authority to issue licenses, and therefore lose opportunities to obtain additional income for their personnel. Without very strong commitment, program implementation will be delayed or will fail. Changes in leadership during the beginning of program implementation may be harmful for program implementation if the new leader does not have a high level of commitment. For RIA implementation, local government commitment is even more difficult to obtain. Many distortive regulations which were reviewed through the RIA process are related to user charges which contribute to local revenue. Several local governments (executive and legislative) do not see the long-term benefits of the reform and view RIA as reducing already limited local revenues, without producing a tangible output (unlike the OSS component). Even though the Foundation conducted careful assessments during the site selection process and entered into agreements with local governments prior to program implementation, such political dynamics still occurred in most sites.
3. ***OSS has become a symbol of local governance reform.*** The concrete results of OSS – physically tangible, increased local revenue due to an increased volume of permits/licenses and reduced corruption due to transparency of the procedures – in addition to availability of national-level guidelines, have made OSS a symbol of reform. This has created demand for other local governments to adopt the OSS, or to apply similar principles to other activities. Nevertheless, more external support and facilitation are necessary in order to replicate OSS nationwide. In addition to local NGO partners (discussed under point 4 below), provincial

governments can play a very important role as a resource center and can facilitate cross-district learning. Provincial governments can help with both establishing new OSS and improving the performance of existing OSS. The OSS Performance Index developed by the Foundation can be used as a monitoring tool for the provincial governments. Additionally, the OSS model can be used for other types of reform, such as procurement reform. Two municipalities, Cimahi and Surabaya, and the Provincial Government of West Java, have been inspired to replicate the principles of OSS in procurement practices by establishing OSS procurement units that are responsible for all government procurement.

4. ***The selection of partners and partners' ability to collaborate are crucial for the success of the program.*** One of the Foundation's approaches involves working through local partners to build local resource centers that can provide technical assistance to governments in a sustainable way. For the implementation of the OSS and RIA components, most of the local NGO partners did not have experience in implementing the programs when they began working with the Foundation, but they did have strong facilitation and advocacy skills. The knowledge built by the Foundation through facilitating OSS since 1999 has been transferred to new partners through trainings, workshops and intensive monitoring and backstopping. Furthermore, the Foundation facilitated knowledge sharing between partners, an approach that has proven very effective in accelerating the learning process.

Partner selection is more important in the implementation of RIA, as most of the NGOs have a high capacity for facilitation and advocacy, but lack technical knowledge to conduct the cost benefit analysis, which is an important part of the RIA process. To fill this gap, the Foundation worked with local academics and consultants that were able to backstop the partners implementing the analysis. A similar situation occurred while implementing the rating of the local investment attractiveness component. KPPOD was a very strong NGO partner and had in-depth knowledge of the overall concept of the survey and the capacity to disseminate the results. However, they lacked the technical capacity to conduct the field implementation of the survey, which involved tasks ranging from designing the questionnaire to managing field surveyors. This was the primary strength of the private survey research firm that was brought in to enhance the quality of the survey. Unfortunately, the firm's lack of familiarity with economic governance issues created significant delays in the implementation and required more technical resources from the Foundation.

5. ***Larger coverage comes at the expense of deepening reforms and achieving more.*** The OSS and RIA components of the program were designed to be implemented in stages, with each site facilitated for only one year. This approach has been effective in introducing varying approaches, achieving the targeted outputs of the program, and covering a lot of sites. However, based on the experiences under PROMIS, sustained reform, with higher outcomes and impacts, requires more than a year of technical assistance. In the implementation of the OSS component, a year is adequate to establish the OSS in most of the sites. However, further reform activities that could have a higher impact on local economic development, such as improvements in customer service, installation of IT systems, or the introduction of mass licensing events, could only be implemented during the program's extension period. For the RIA component, one year of support per site is inadequate. All of the RIA teams spent at least 13 months drafting two local regulations and were no longer supported when they submitted the drafts to local parliament (DPRD) and discussed these drafts with the DPRD. As a result, limited numbers of local regulations were passed at the end of the program.
6. ***A geographic focus, where both OSS and RIA components are implemented, can help to accelerate reforms.*** The implementation of both the RIA and OSS components in one

location can be very effective in accelerating the reform process. The fact that 90% of the regulations selected for review by RIA teams in 20 districts were related to business licensing indicates the importance and urgency of reforming licensing and permitting processes. The two components complemented each other well. RIA activities identified the “weaknesses” of one particular regulation and enabled advocacy for the revision of the substance of the regulation. At the same time, the OSS component worked on organizational and procedural reform to streamline the process of licensing.

7. ***The Local Economic Governance Survey has not been fully utilized as an advocacy tool for promoting further reforms.*** As the only local economic governance survey in Indonesia with broad coverage and a sound methodology, the Local Economic Governance survey has great potential to be used by local governments to measure their performance. It can also be used by business communities to select locations to establish new businesses. However, the media campaign to disseminate the results of the survey was too limited. Furthermore, discussions with the local governments surveyed were not extensive enough to create demand or, more importantly, to open up opportunities for the local governments to prepare their reform strategies based on the survey results. The nature of the 2007 survey, which covered all districts/municipalities in each province, actually created broader opportunities to discuss the results with a few selected provinces to improve the rankings of the districts/municipalities and, hence, the quality of their economic governance.
8. ***The methodology of the Economic Governance Survey can be improved further.*** Although the Foundation, KPPOD and Nielsen significantly improved the methodology of the survey between 2005 and 2007, several weaknesses can still be identified. *First*, the endowment variables were removed from the survey design, but some endowment aspects still influenced the results of the survey. Land issues in urban areas are more complex than in rural areas, which is why municipalities scored poorly on the land access sub-index. Java inherited a better infrastructure than the outer islands, which was reflected in the results of the infrastructure sub-index. *Second*, variables were still included which are beyond the authority of local governments. Land certificates are issued by the national land agency, electricity is provided by the national electricity company, and the telephone service is provided by state-owned enterprises.

Annex 1. List of Districts/Municipalities and Program Interventions

No.	District/Municipality	One Stop Shops	Regulatory Impact Assessment
<i>Nanggroe Aceh Darussalam Province</i>			
1	Kota Banda Aceh	✓	
2	Aceh Utara ⁽¹⁾	✓	
<i>North Sumatra Province</i>			
3	Deli Serdang ⁽¹⁾	✓	
4	Serdang Bedagai	✓	
<i>West Sumatra Province</i>			
5	Lima Puluh Koto	✓	
6	Solok	✓	✓
7	Kota Solok	✓	
8	Kota Bukittinggi	✓	
<i>West Java Province</i>			
9	Bekasi	✓	
10	Majalengka	✓	
11	Purwakarta	✓	✓
12	Subang	✓	
13	Kota Cimahi	✓	
14	Indramayu	✓	✓
15	Cirebon		✓
<i>Central Java Province</i>			
16	Kota Pekalongan	✓	✓
17	Kota Salatiga	✓	✓
18	Semarang	✓	✓
19	Kota Semarang		✓
20	Kota Probolinggo	✓	
21	Banjarnegara		✓
22	Demak		✓
23	Grobogan		✓
24	Kendal		✓
25	Sragen		✓
<i>DI Yogyakarta Province</i>			
26	Kota Yogyakarta	✓	
27	Sleman	✓	
28	Gunungkidul	✓	✓
29	Kulonprogo	✓	✓
30	Bantul	✓	✓
<i>East Java Province</i>			
31	Sidoarjo	✓	✓
32	Lamongan	✓	

No.	District/Municipality	One Stop Shops	Regulatory Impact Assessment
33	Kota Blitar	✓	✓
34	Pasuruan	✓	✓
35	Lumajang ⁽¹⁾	✓	
36	Jombang	✓	
37	Blitar	✓	
38	Madiun		✓
<i>South Kalimantan Province</i>			
39	Kota Banjarmasin	✓	
<i>West Nusa Tenggara Province</i>			
40	Sumbawa Besar	✓	
Total:		32	20

Note: (1) Technical Assistance was provided to this district, but the team was unable to establish or upgrade the OSS.

Annex 2. PROMIS OSS Site Profile

No	District/ Municipality	Organizational Status	Established or Upgraded	Legal Basis	Coverage of Types of Licenses	Level of Authority
Nanggroe Aceh Darussalam Province						
1	Kota Banda Aceh	Office	Established	Local regulation (<i>Perda</i>)	28 types of licenses	Issuing licenses
North Sumatra Province						
2	Serdang Bedagai	Office	Established	Local regulation (<i>Perda</i>)	23 types of licenses	Issuing licenses
West Sumatra Province						
3	Lima Puluh Koto	Office	Upgraded	Local regulation (<i>Perda</i>)	62 types of licenses	Issuing licenses
4	Solok	Office	Upgraded	Local regulation (<i>Perda</i>)	24 types of licenses	Issuing licenses
5	Kota Solok	Office	Upgraded	Mayoral decree	62 types of licenses	Issuing licenses
6	Kota Bukittinggi	Office	Upgraded	Local regulation (<i>Perda</i>)	12 types of licenses	Issuing licenses
West Java Province						
7	Bekasi	Agency	Established	Local regulation (<i>Perda</i>)	60 types of licenses	Issuing licenses
8	Majalengka	Agency	Established	Local regulation (<i>Perda</i>)	40 types of licenses	Issuing licenses
9	Purwakarta	Agency	Established	Local regulation (<i>Perda</i>)	49 types of licenses	Issuing licenses
10	Subang	Agency	Established	Local regulation (<i>Perda</i>)	11 types of licenses	Issuing licenses
11	Kota Cimahi	Office	Established	Local regulation (<i>Perda</i>)	60 types of licenses	Issuing licenses
12	Indramayu	Agency	Established	Local regulation (<i>Perda</i>)	43 types of licenses	Issuing licenses
Central Java Province						
13	Kota Pekalongan	Department	Upgraded	Local regulation (<i>Perda</i>)	36 types of licenses	Issuing licenses
14	Kota Salatiga	Office	Upgraded	Local regulation (<i>Perda</i>)	7 types of licenses	Issuing licenses
15	Semarang	Office	Upgraded	Local regulation (<i>Perda</i>)	21 types of licenses	Issuing licenses
16	Kota Probolinggo	Department	Upgraded	Local regulation (<i>Perda</i>)	9 types of licenses	Issuing licenses
DI Yogyakarta Province						
17	Kota Yogyakarta	Department	Upgraded	Local regulation (<i>Perda</i>)	75 types of licenses	Issuing licenses
18	Sleman	Unit	Upgraded	Regent Decree	26 types of licenses	Front Office

No	District/ Municipality	Organizational Status	Established or Upgraded	Legal Basis	Coverage of Types of Licenses	Level of Authority
19	Gunungkidul	Office	Upgraded	Local regulation (<i>Perda</i>)	47 types of licenses	Issuing licenses
20	Kulonprogo	Office	Upgraded	Local regulation (<i>Perda</i>)	21 types of licenses	Issuing licenses
21	Bantul	Department	Upgraded	Local regulation (<i>Perda</i>)	73 types of licenses	Issuing licenses
<i>East Java Province</i>						
22	Sidoarjo	Department	Upgraded	Local regulation (<i>Perda</i>)	14 types of licenses	Issuing licenses
23	Lamongan	Office	Upgraded	Local regulation (<i>Perda</i>)	15 types of licenses	Issuing licenses
24	Kota Blitar	Office	Upgraded	Local regulation (<i>Perda</i>)	14 types of licenses	Issuing licenses
25	Pasuruan	Department	Upgraded	Local regulation (<i>Perda</i>)	14 types of licenses	Issuing licenses
26	Jombang	Agency	Upgraded	Local regulation (<i>Perda</i>)	34 types of licenses	Issuing licenses
27	Blitar	Office	Established	Local regulation (<i>Perda</i>)	17 types of licenses	Issuing licenses
<i>South Kalimantan Province</i>						
28	Kota Banjarmasin	Agency	Upgraded	Local regulation (<i>Perda</i>)	12 types of licenses	Issuing licenses
<i>West Nusa Tenggara Province</i>						
29	Sumbawa Besar	Office	Established	Regent Decree	90 types of licenses	Issuing licenses

Annex 3. Results of RIA Activities

No.	District/Municipality	Topic of Local Regulations (<i>Perda</i>) Reviewed	RIAS Formulated	Legal Drafting	Submitted to DPRD	Approved by DPRD
West Sumatra Province						
1	Solok	Construction Permit (IMB)	✓	✓	✓	✓
		Nuisance Permit (HO)	✓	✓	✓	✓
West Java Province						
2	Cirebon	Business Location Permit	✓	✓	-	-
		Local Government Enterprise Establishment	✓	✓	-	-
3	Purwakarta	Trading Permit (SIUP)	✓	✓	-	-
		Business Registration (TDP/WDP)	✓	✓	-	-
4	Indramayu	Business Location Permit	✓	✓	✓	-
		Land Use Permit (IPPT)	✓	✓	✓	-
Central Java Province						
5	Banjarnegara	C-Type Mining Permit	✓	✓	✓	-
		Nuisance Permit (HO)	✓	✓	✓	-
6	Demak	Nuisance Permit (HO)	✓	✓	-	-
		Construction Permit (IMB)	✓	✓	-	-
7	Grobogan	Nuisance Permit (HO)	✓	✓	-	-
		Construction Permit (IMB)	✓	✓	-	-
8	Kendal	Trading Permit (SIUP)	✓	✓	✓	2009 ⁽¹⁾
		Nuisance Permit (HO)	✓	✓	✓	✓
9	Kota Pekalongan	Nuisance Permit (HO)	✓	✓	✓	✓
		Advertisement Tax	✓	✓	✓	✓
10	Kota Semarang	Nuisance Permit (HO)	✓	✓	-	-
		Construction Permit (IMB)	✓	✓	-	-
11	Kota Salatiga	Nuisance Permit (HO)	✓	✓	-	-
		Construction Permit (IMB)	✓	✓	-	-
12	Semarang	Nuisance Permit (HO)	✓	✓	-	-
		Construction Permit (IMB)	✓		-	-
		Trading Permit (SIUP)	✓		-	-
13	Sragen	Nuisance Permit (HO)	✓	✓	-	-
		Work Safety User Charge	✓	✓	-	-
		Third Party Contributions for Licensing	✓	✓	-	-
DI Yogyakarta Province						
14	Bantul	Nuisance Permit (HO)	✓	✓	✓	2009 ⁽¹⁾
		Construction Permit (IMB)	✓	✓	✓	2009 ⁽¹⁾
15	Gunungkidul	Nuisance Permit (HO)	✓	✓	✓	2009 ⁽¹⁾
		Advertisement Tax	✓	✓	✓	2009 ⁽¹⁾

No.	District/Municipality	Topic of Local Regulations (<i>Perda</i>) Reviewed	RIAS Formulated	Legal Drafting	Submitted to DPRD	Approved by DPRD
16	Kulonprogo	Nuisance Permit (HO)	✓	✓	✓	2009 ⁽¹⁾
		Construction Permit (IMB)	✓	✓	✓	2009 ⁽¹⁾
East Java Province						
17	Kota Blitar	Street Vendor Regulation	✓	✓	✓	✓
		Trading Permit (SIUP)	✓	✓	✓	✓
18	Madiun	Industry and Trade-Related Licenses ⁽²⁾	✓	✓		
		Forestry Commodities Charges	✓	✓	✓	
19	Pasuruan	Tourism License (SIUP)	✓	✓		
		Industry and Trade-Related Licenses	✓	✓		
20	Sidoarjo	Nuisance Permit (HO)	✓			
T o t a l			41	38	19	7

Note: (1) Expected to be deliberated over and approved by the DPRD in 2009.

(2) A draft Regent Decree (instead of a local regulation) was submitted to the district head's office.

Annex 4. Provincial Roundtables

No.	Date	Location of Provincial Roundtable	Topic	Number of Participants
1	May 8, 2006	Medan, North Sumatra	Making North Sumatra's Economy More Competitive	120
2	May 16, 2006	Surabaya, East Java	The Regional Business Environment	Not available
3	Jun 15, 2006	Padang, West Sumatra	Creating a Competitive Regional Economy	151
4	Jun 24, 2006	Samarinda, East Kalimantan	Creating a Competitive Regional Economy	Not available
5	Jul 6, 2006	Bandung, West Java	Creating a Competitive Regional Economy	50
6	Jul 18, 2006	Malang, East Java	Building Infrastructure and Capacities	Not available
7	Aug 8, 2006	Balikpapan, East Kalimantan	Creating a Competitive Regional Economy	Not available
8	Sep 4, 2006	Purwakarta, West Java	Creating a Competitive Regional Economy	Not available
9	Sep 11, 2006	Medan, North Sumatra	Creating a Competitive Regional Economy	Not available
10	Sep 13, 2006	Padang, West Sumatra	Creating a Competitive Regional Economy	Not available
11	Sep 20, 2006	Makassar, South Sulawesi	Creating a Competitive Regional Economy	Not available
12	Dec 28, 2006	Padang, West Sumatra	OSS as a Tool for Tourism Investments in West Sumatra	53
13	Jan 17, 2007	Makassar, South Sulawesi	Improvement of the One Stop Shops in South Sulawesi	34
14	Jan 23, 2007	Surabaya, East Java	Review of Licensing Policy and Regulations in East Java	100
15	Jan 25, 2007	Bandung, West Java	Licensing Reform in West Java	46
16	Feb 14, 2007	Yogyakarta	Creating a Competitive Regional Economy	46
17	Feb 27, 2007	Semarang, Central Java	Using the New Investment Law to Draw Investment to the Region	53
18	Apr 25, 2007	Semarang, Central Java	Local Governments and the New Investment Law	70
19	May 15, 2007	Padang, West Sumatra	The Role of OSS in Improving Investment in West Sumatra	32
20	May 29, 2007	Surabaya, East Java	Licensing Reform and Challenges in the Housing Sector	46
21	May 30, 2007	Makassar, South Sulawesi	Creating a Pro-Investment Local Government	Not available
22	May 31, 2007	Makassar, South Sulawesi	The Need for Pro-Investment Local Regulation	Not available
23	Jun 12, 2007	Yogyakarta	Tourism Regulations In Yogyakarta	75
24	Jun 14, 2007	Bandung, West Java	Creating New Regulations on Street Vendors and Local Markets	68

Annex 5. Capacity of Local NGO Partners to Deliver OSS Support

No	Partners	Province(s)	Achievements
1	<i>Perkumpulan Untuk Penguatan Usaha Kecil (PUPUK) Surabaya/ OSS Centre</i>	East Java	<ul style="list-style-type: none"> • Successfully delivered PROMIS OSS TA in 9 districts/ municipalities in East Java • Staff have expertise to support other TAF partners with implementing OSS TA • Involved in national level OSS support • Have provided OSS TA to 8 other districts in 6 provinces using LG budgets. • Able to assist other donor programs (GTZ, LOGICA/AUSAID) with OSS related work
2	<i>Pusat Tela'ah Dan Informasi Regional (Pattiro Malang)</i>	East Java	<ul style="list-style-type: none"> • Successfully delivered PROMIS OSS TA in Kota Blitar (East Java)
3	<i>Daya Prosumen Mandiri (DPM)</i>	Central Java and DI Yogyakarta	<ul style="list-style-type: none"> • Successfully delivered PROMIS OSS TA in 5 districts/municipalities in Yogyakarta and Central Java • Involved in various OSS projects with the Yogyakarta Provincial Government • Provided OSS training to 7 districts outside PROMIS program sites • Helped other donor programs (GTZ) with OSS related work
4	Center for Micro and Small Enterprise Dynamic (CEMSED)	Central Java	<ul style="list-style-type: none"> • Successfully delivered PROMIS OSS TA in 2 districts in Central Java • Involved with assisting Central Java OSS Forum activities
5	Pattiro Pekalongan	Central Java	<ul style="list-style-type: none"> • Successfully delivered PROMIS OSS TA in Kota Pekalongan (Central Java)
6	Bandung Trust Advisory Group (B-Trust)	West Java	<ul style="list-style-type: none"> • Successfully delivered PROMIS OSS TA in 5 districts/municipalities in West Java • Supported other TAF partners implementing OSS TA • Provided TA to other districts to establish OSS using LG budgets in 8 districts in West Java • Involved in OSS -related work at the national and provincial levels • Provided consultancy services and references for all districts in West Java for OSS establishment and enhancements.
7	Akademika	West Java	<ul style="list-style-type: none"> • Successfully delivered PROMIS OSS TA in Bekasi. • Involved in OSS work at the national and provincial levels.
8	<i>Pusat Kajian Sosial, Budaya, dan Ekonomi - Universitas Negeri Padang (PKSBE)</i>	West Sumatra	<ul style="list-style-type: none"> • Successfully delivered PROMIS OSS TA in 4 districts in West Sumatra • Provided consultancy services to local governments using LG budgets • Driven by local academics

No	Partners	Province(s)	Achievements
9	Yayasan BITRA Indonesia	North Sumatra	<ul style="list-style-type: none"> • Together with Forda North Sumatra, BITRA successfully delivered PROMIS OSS TA in 2 districts/municipalities in North Sumatra • Provided TA in 2 districts outside PROMIS program sites • Initially required intensive backstopping, but is now a strong implementing partner
10	Regional Forum for Small and Medium Enterprises (FORDA-UKM) – North Sumatra	North Sumatra	<ul style="list-style-type: none"> • Together with BITRA, Forda North Sumatra successfully delivered PROMIS OSS TA in 2 districts/municipalities in North Sumatra
11	Universitas Malikussaleh	Nanggroe Aceh Darussalam (NAD)	<ul style="list-style-type: none"> • Required intensive supervision while delivering PROMIS OSS TA in North Aceh.
12	Universitas Syah Kuala	NAD	<ul style="list-style-type: none"> • Successfully delivered PROMIS OSS TA in Banda Aceh • Mainly driven by academics
13	Lembaga Olah Hidup (LOH)	West Nusa Tenggara	<ul style="list-style-type: none"> • Successfully delivered PROMIS OSS TA in Sumbawa District, NTB with the help of PUPUK
14	Perkumpulan Sentra Program Pemberdayaan dan Kemitraan Lingkungan (STABIL)	South Kalimantan	<ul style="list-style-type: none"> • Delivered PROMIS OSS TA in Kota Banjarmasin